

# A New System for Better Employment and Social Outcomes

Report of the Reference Group on Welfare Reform to the Minister for Social Services

## FINAL REPORT



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# Introduction

## About the Review

In December 2013, the Minister for Social Services, the Hon. Kevin Andrews MP, commissioned a review of the welfare system.

The purpose is to identify improvements to ensure the system is sustainable, effective and coherent, and encourages people to work. The Minister appointed an independent Reference Group to lead the review.

The Reference Group has considered the broad range of payments and services that are available for people of working age and considered whether they support people to participate in work to their capacity.

While the focus was on payments for working age people, the Reference Group considered issues that affect all payments, such as indexation. The Reference Group also considered how possible changes to payments that are within scope may impact on other payments.

The Reference Group's work was informed by an analysis of the evidence base including: expenditure; types of payments and who receives them; expectations of and services for people receiving payments; influencing factors and trends; information available from a range of current and previous reviews and reforms, including recent overseas reforms.

The Reference Group tested this initial work, which was presented in its Interim Report, through extensive discussions with selected stakeholders and public submissions to help inform development of its Final Report.

During consultations, stakeholders and income support recipients generously provided the Reference Group with their time and feedback. These contributions had a profound impact on the development of the Final Report. The Reference Group is very grateful for the time and assistance provided by stakeholders and income support recipients during the consultation process.

## Reference Group on Welfare Reform

Mr Patrick McClure AO chaired the Reference Group on Welfare Reform. The other members were Mr Wesley Aird and Ms Sally Sinclair. Brief biographical details are at **Appendix A**.

The Reference Group was supported by a Taskforce in the Department of Social Services in preparing this report.

## Guiding Principles for the Review

The Reference Group was asked to advise on how Australia's welfare system can:

- provide incentives to work for those who are able to work
- adequately support those who are genuinely not able to work
- support social and economic participation through measures that build individual and family capability

- be affordable and sustainable both now and in the future and across economic cycles
- be easy to access and understand, and able to be delivered efficiently and effectively.

## Core Values for Reform

A new social support system has been developed to enable people to live a life they value through accessing a system characterised by the core values of:

- Participation—supporting people to participate both economically and socially and to engage with employers, and the wider community.
- Capability—building capability through skills and training so that people may reach their full capacity.
- Respect—treating all Australians with respect and dignity while acknowledging their diversity, individual challenges and aspirations.
- Fairness—providing equity across the welfare system which requires that people in similar circumstances are treated similarly and everyone can easily access payments they are entitled to.
- Adequacy—providing income support recipients with sufficient support to ensure a basic standard of living in line with community standards.

This would be delivered by a new flexible social support system that is simpler, sustainable, coherent and outcomes focused, with investments directed towards achieving clear, measurable improvements for people at risk of income support reliance, underpinned by a rigorous and transparent monitoring and evaluation framework.

## Review Consultation Process

The Minister for Social Services, the Hon. Kevin Andrews MP, released the Reference Group's Interim Report on 29 June 2014 to encourage public debate and discussion and to engage extensively with the public in order to develop its Final Report.

The Reference Group undertook a six week period of public consultation which included a call for public submissions and comments and the hosting of roundtables with key stakeholders in capital cities to discuss the future directions and questions identified in the Interim Report.

The Reference Group received a total of 271 public submissions from individuals and organisations. Where permission was given by the authors of the submissions, individual author names have been listed at **Appendix B**. The Reference Group also received a total of 231 public comments (of up to 500 words) from individuals.

A summary of the public submissions and comments received are provided at **Appendix C** and **Appendix D** respectively.

Thirteen roundtables were held in all capital cities and Cairns during July and August 2014 with a total of 175 representatives from key stakeholder organisations attending. The names of those organisations who attended roundtables in each location are listed at **Appendix E**. A consolidated summary of the major themes and issues that emerged from these stakeholder roundtables is provided at **Appendix F**.

Five individual customer roundtables were also held with more than 50 income support payment customers in Brisbane, Sydney and Melbourne during August 2014. The five customer groups were: sole parents; jobseekers; carers; students; and people with a disability.

A consolidated summary of the major themes and issues that emerged from these customer roundtables is provided at **Appendix G**.

## Interaction with Other Reviews

Other reviews that may have implications for areas of the social support system that the Reference Group has noted are:

- The National Mental Health Commission's Review of Existing Mental Health Services and Programmes
- The Productivity Commission's inquiry into Childcare and Early Childhood Learning
- The Review of Employment Services beyond 2015
- The Review of Indigenous Training and Employment Programmes
- The Tax Review White Paper
- The Vocational Education and Training (VET) Reform process
- The White Paper on the Reform of the Federation.

The Reference Group is mindful of these other reviews and that a number of them have yet to make their final reports public and that these have yet to be responded to by the Australian Government.

The focus of the Reference Group's Final Report and its recommendations is on the longer-term future directions of the social support system, with the primary goal to maximise employment and social outcomes.



# Executive Summary

Australia's social support system needs major reform to deliver better outcomes for all Australians now and in the future.

Changes to the system over time have led to unintended complexities, inconsistencies and incoherencies. They have created disincentives for some people to work.

The system is out of step with today's labour market realities and community expectations.

It is failing to identify groups at risk of long-term income support dependence and needs to refocus on early intervention and supporting individuals through difficult transitions.

Without reform, the fiscal, economic and social sustainability of the system will be compromised.

A new social support system is needed to improve employment and social outcomes. The current system is complex and does not support everyone, who is able, to work and be self-reliant.

An integrated approach is necessary which consists of four pillars of reform:

- Simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity

## Case for Reform – Towards a Simpler System that Supports Work

A much greater focus on employment is needed.

People who can work should work to their capacity and rates of payment should reflect different capacities to work and support a transition to work.

People with very limited capacity to work should receive a payment that reflects that they are likely to be receiving income support indefinitely with little capacity to supplement payments through work.

## Complexity

There are currently around 20 income support payment types and 55 supplementary payments.

The many payments and supplements have resulted in a system that is difficult to understand, navigate and administer. Existing means testing arrangements add to this complexity and result in a system that is confusing for income support recipients. This complexity leaves recipients unsure about the potential rewards from work.

These failings reduce the effectiveness of the system and can also undermine community confidence in the fairness of the system.

The current system does not work well for people with mental health conditions, which are often episodic. It also fails to differentiate effectively between permanent and temporary incapacity when assessing eligibility, rates of payment and associated services offered by the social support system.

Multiple payments and inconsistent rules around payments for dependent children and young people create further complexity.

Altogether, the income support system does not provide clear rewards for work and should be simplified.

## System Coherence

The effect of different indexation measures, changing priorities and ad hoc policy responses have led, over time, to a 'patchwork quilt' income support system that is inequitable and lacks coherence.

People with similar basic living costs and similar capacities to work may receive very different levels of financial support, and have different participation requirements.

These differences significantly reduce the effectiveness of the system and lead to incentives for people to try and qualify for higher income support payments, rather than building their capacity and aiming for greater self-reliance through employment.

For example, pensions and allowances are indexed differently, which has created a widening gap between the two:

- allowances are indexed twice a year to the Consumer Price Index
- family Payments are indexed once a year to the Consumer Price Index
- pensions are indexed twice a year to whichever is higher—the Pensioner and Beneficiary Living Cost Index or the Consumer Price Index
- pension rates are also benchmarked to Male Total Average Weekly Earnings.

Adjusting income support payments to ensure they increase in line with broader changes in community living standards is not a simple issue and there are no easy solutions.

## Benefits of Work

There are many benefits of work. Most people gain health benefits associated with employment, both physical and mental. Work can be a vital part of recovery for people with mental health conditions. Intergenerational benefits of work accrue as children who grow up in employed households have better social, emotional, physical development and learning outcomes. The community also benefits. Increased employment supports economic growth, minimises the cost of income support payments and increases the amount of tax paid.

Some people receiving income support have little or no requirements to participate in employment and tend not to access employment services. There is scope to improve employment and social outcomes for many people in these groups by reviewing their capacity, to encourage and require greater participation in education, training, work or other work preparation activities.

## Meeting Future Economic and Social Challenges

The social support system should be re-designed to ensure it is responsive to the future economic and social challenges Australia faces.

The Australian economy has undergone major structural changes in recent decades.

As this restructuring continues, the nature and availability of jobs across the country and the skills required for these jobs will change. At the same time, the demographic challenges of the ageing of the population will continue as the ratio of the working age population to the over 65 age group declines.

These changes include:

- major changes within and across industries
- increasing skill levels
- an ageing population
- much higher participation among women and older Australians
- increases in the part-time and casual workforces.

## Sustainability

For the social support system to be sustainable, it should be:

- Socially sustainable—building broad community acceptance and support, and reflecting community values and expectations. There is a need to ensure that the system is fair and seen to be fair across current and future generations.
- Fiscally and economically sustainable—despite Australia having one of the most targeted income support systems in the OECD, it is still important to ensure costs are constrained in the context of an ageing population and anticipated increases in government expenditure in health, age related pensions and aged care. There is also an opportunity to contribute to economic growth through greater levels of participation and improved labour force productivity.

## Transitions

The success with which people make transitions during their life is a major determinant of their long term wellbeing.

The current social support system does not have a coherent approach to supporting the significant transitions that can affect an individual during their life.

Whether or not a transition is a positive or negative experience depends on a range of risk factors, which, if mismanaged, can place individuals at risk of long-term joblessness and disadvantage. These risk factors include: low levels of education or skills; homelessness; disability or illness; living in rural or remote areas; social isolation; caring responsibilities; and unstable or casual work.

Gaining a better understanding of these risk factors will allow for investment in early intervention and to reduce the risk of long term income support dependence.

# Pillar One

## Simpler and Sustainable Income Support System

The new income support system should have a strong employment focus. It should encourage and support people to work to their capacity.

The new system should be simpler, easier to access and understand, be delivered efficiently and effectively and have clear rewards for work.

A Passport to Work should be developed that supports people to transition from income support to work. The Passport to Work should remove the fear people have of taking a job by making it easier to understand the financial rewards of work. It should also encourage people to establish themselves in long term employment by providing a safety net that enables them to return to their former income support payment (and concessions) if the job ends or hours reduce.

Payments in the new system should be adequate enough to provide a basic, acceptable standard of living and to cover the costs of participation.

In transitioning to the new system no person moving from a payment under the old system to a payment under the new system should have a reduction in their rate of payment.

In recognition of the critical role of housing to employment, education, job search and health, and the disincentives to work and inequities in the current system of housing assistance, income based rents should be phased out in public housing and replaced with Commonwealth Rent Assistance, over time.

## Simpler Architecture

In the new system a major redesign of the payment architecture should be the centrepiece of reform.

There should be five primary payments:

- Tiered Working Age Payment
- Supported Living Pension
- Child and Youth Payment
- Carer Payment
- Age Pension.

The key to a simpler architecture is to have fewer primary payment types with varying rates within the primary payments that better reflect different circumstances.

Many people currently on Newstart Allowance would be better off in the new system.

## Tiered Working Age Payment

The tiered working age payment is a means tested payment for adults who are expected to work now or in the future. It should be the primary payment for people of working age, with three tiers to reflect the varying capacities of individuals.



The Upper Tier should be for people with disability with a limited capacity to work, who, as a result of this limited capacity, are more likely to stay on payments for some time. This tier is for people with disability and an assessed work capacity of eight to 14 hours per week.

The Middle Tier is for people with moderate capacity to work and/or those with dependent children or dependent young people. This includes people with disability and an assessed capacity to work of 15 and 29 hours per week. It also includes parents caring for dependent children or dependent young people aged under 22 years.

The Foundation Tier is for people with full capacity to work or study full time.

For each tier, there should be single person rates and a partnered rate, with single rates more than the partnered rate (i.e. more than half the rate to a couple combined) to reflect that single people have higher costs than couples living together.

## Supported Living Pension

The Supported Living Pension is a means tested pension for people over 22 who are permanently and severely restricted in their capacity to work in the open labour market.

The definition of 'permanence' in the new system should relate to how long an individual is limited in their capacity to work, not the permanence of the impairment itself. An individual may have a severe and permanent impairment but this may not lead to permanent limitations on their capacity to work.

The Pension should be available for people with disability and an assessed work capacity of less than eight hours a week. The level of incapacity must be expected to last for at least another five years.

## Child and Youth Payment

The Child and Youth Payment should be a means tested payment paid to parents or guardians of dependent children and dependent young people under the age of 22.

It should be paid per child and increase with the age of the child to better reflect the increasing costs of children as they grow up. It should be conditional on the child or young person having up to date immunisations and being in school, education, or training, where they have the capacity.

## Childcare

In the draft report of its inquiry into Childcare and Early Childhood Learning, the Productivity Commission suggested simplifying the range of childcare payments and ensuring that they encourage and support employment.

The Reference Group supports this draft recommendation.

## Age of independence

In the new system there should be a consistent minimum age at which a young person should be able to access income support in their own right.

In providing financial support for people unable to support themselves, the payment system should provide assistance to parents for dependent children and dependent young people and to the individual when they are independent of their parents.

Children and young people are expected to be engaged in education and so are not expected to support themselves through work below a certain age.

The Reference Group considers that income support should not generally be available to young people under the age of 22 in their own right.

## Carer Payment

In the new system the Carer Payment would continue to be a means tested payment for people over the age of 22 who are restricted in their capacity to work because of their caring role. It would be available for people providing constant care for someone with a physical, intellectual or psychiatric disability or older people in need of care.

In the Interim Report, the Reference Group suggested carers should receive a Working Age Payment. During the consultation process, the Reference Group heard from a range of carer representatives and carers themselves, who described the major challenges to working that face them as a result of their caring responsibilities.

It is clear that a separate payment for carers (the Carer Payment) and limited requirements, such as periodic discussions to talk about goals and options, are more appropriate than the new Working Age Payment.

## Age Pension

People who are over Age Pension age would usually qualify for the Age Pension where they meet eligibility requirements, including residence. The Age Pension is outside the scope of the Review.

## Recommendations



Implement a new architecture for the income support system that is employment focused. The new system will be simpler, more coherent and clearly reward work.



Introduce a new payment architecture with five main payments, which aims to encourage education and work and which recognises that people's capacity to work can be limited by disability or caring.

- The five main payments be:
  - a Working Age Payment—a means tested payment for adults who are expected to work now or in the future, with three tiers to reflect the varying needs and capacity of individuals to work:
    - The Upper Tier should be for people who have a limited capacity to work and due to this are more likely to stay on payment for a longer duration.
    - The Middle Tier should be for people with moderate limitations on their capacity to work and parents and primary carers of dependent children and dependent young people under the age of 22.
    - The Foundation Tier should be for people with full capacity to work or study.
  - A Supported Living Pension—a means tested payment for individuals over 22 who are permanently and severely restricted in their capacity to work.
  - A Child and Youth Payment—a means tested payment paid to parents for dependent children and dependent young people, until the age of 22.
  - A Carer Payment—a means tested payment for individuals over 22 with caring responsibilities.
  - An Age Pension—a means tested payment for people over the Age Pension age.



Consider the Productivity Commission's final report on Childcare and Early Childhood Learning alongside proposed reforms to the income and social support systems, to improve supports for parents to participate in education and employment.



Design transitions to ensure that no individual moving from the old system to the new system will experience a reduction in their rate of payment.

## Supplements and Concessions

In the new system there should be fewer supplements and they should have clearly defined purposes and be for specific additional costs.

The Government should review all supplements alongside the detailed development of the new payment architecture.

The range of supplements should sit under the following categories:

- Housing to assist with the costs of rental accommodation
- Child and Family to assist with specific extra costs related to children
- Education to assist with specific additional costs of children and young people, when they need to live away from home to work or study
- Carer and Disability to assist in caring for children and adults with disability or people who are frail and aged.

In the new system, concession cards should continue to be available as they provide access to health concessions and help reduce the cost of certain goods and services.

## Recommendations



Review all supplements alongside the detailed design of the new payment architecture.



Supplements in the new system should be for clearly defined purposes and specific extra costs.



Implement four categories of supplements as follows:

- Housing
- Child and Family
- Education
- Carer and Disability.



Retain concession cards as a component of the social support system. Income support recipients and low income earners should receive concessions to assist with health costs and certain goods and services.

## Adequacy

Payments in the new system should cover basic costs of living and costs of participation, and more adequately reflect people's circumstances and capacity to work. Current allowances do not reflect that people with limited capacity to work can stay on an allowance for a significant period of time.

People with a partial capacity to work, such as single parents and people with disability, are more likely to stay on payments for a longer duration given the limitations on their capacity to work.

In setting rates in the new system the Government should consider:

- the balance between adequacy, incentives to work and affordability
- the coherence of the system. One payment should not be changed without considering the impact on other payments
- individuals' capacity to work. Higher rates should be set for people with limited capacity to work who are less able or unable to supplement their payments through earned income.

Setting of payment rates and obligations needs to be complemented by appropriately resourced support services. Adequacy needs to be measured against the individual or household package of income support. This may include the primary income support payment, supplements including Commonwealth Rent Assistance, concessions, payments that assist with the cost of raising children and the different rates accorded to single person households relative to couple households.

People need a payment that enables them to have a basic, acceptable standard of living, and that allows them to meet their obligations to look for work, or to study, and/or to support children.

Many people currently on Newstart Allowance would be better off in the new system.

## Adjusting Payments

Income support payments in the new system should be adjusted to both:

- ensure living standards of people relying on income support payments reflect broader changes in community living standards
- maintain purchasing power, in line with cost of living increases.

To create and maintain a more coherent income support system, it is important that relativities between payments are maintained over time. Payments should be adjusted in a consistent way to ensure coherence of the income support system.

In the new income support system, payments should be adjusted through a twin tracked approach:

- a community living standards review – every four years, a panel of experts would review and recommend a community living standards adjustment, where appropriate, to government
- an automatic cost of living adjustment, such as the Consumer Price Index or a purpose built index, every six months.

This should be applied to all payments to protect the coherence of the system.

## Recommendations: Adequacy and Indexation



Adopt a twin tracked approach to payment adjustments across all income support payments:

- a community living standards adjustment following a periodic review (at least every four years) undertaken by a panel of experts.
- An automatic cost of living adjustment every six months, following a process to determine the most appropriate cost of living index for the new payment architecture.



The expert panel established to review community living standards should consider a wide range of relevant factors in providing its advice to Government on changes in community living standards.



The review should be undertaken at least every four years to determine whether payment levels are appropriate relative to community living standards. The review should be open, transparent and published.



The Government should review current measures to index payments to cost of living (CPI and PBLCI) and determine the most appropriate index to use across all payments in the future.

## Making Work Pay

### The Passport to Work

The Passport to Work should be a key feature in the new system. The Passport to Work would make it clear to recipients how their income support package would be affected when moving into work or increasing hours and what would happen if work reduces or ends.

It will provide a safety net that encourages individuals to establish themselves in sustainable employment and allows them to return to their previous income support entitlement, if hours of work reduce or work ends.

### Coherent withdrawal rates

In the new system, it should be easier for recipients to understand how their income support payments will be withdrawn as hours of work increase.

Income banking arrangements, income free areas and taper rates should be consistent within each payment group and, to the greatest extent possible, across payments. This would ensure that income support recipients are able to easily calculate how much they would gain from entering employment or increasing their hours.

Income banking (which allows people to save credits from when they have little or no earnings to offset earnings later) should be available in the new system in recognition of the availability of casual and seasonal work and students' work patterns.

The design of these arrangements, income free areas and taper rates should ensure that income support recipients can clearly see the benefits of a return to work and that there are no sudden drops in income support.

### Targeting assistance to need

Means testing is a central feature of Australia's social support system. People who have earnings from work, unearned income from investments, or significant assets receive reduced payments or no payments at all.

In designing means tests for the new system, there is a need to strike a balance between targeting that is based on need and maintaining incentives to work.

## Recommendations: Making Work Pay



Introduce a 'Passport to Work' for income support recipients—a set of personalised guidelines which describe how much better off people will be in work and reduce the fear of taking a job. The main elements of the Passport to Work should include:

- an assurance that, if hours reduce or work ends within a defined period, that people can transition back to their previous income support entitlement
- the retention of eligibility for concession cards for a significant period of time, for people who return to work or increase their hours
- a comprehensive and clear impact statement of how income support will be affected as hours of work or income change. This statement will be personalised and cover payments, supplements and concessions and will be available online.



Review and refine current income banking arrangements, income free areas and taper rates to ensure they deliver greater consistency and clearer rewards for work under the new system of income support.



Ensure that income tests are consistent within each payment category and to the greatest extent possible across payments.



Ensure that income banking arrangements are available for people to smooth income earned, particularly from casual work and for students. Income banking arrangements should be simple and easy for people to calculate the impact of irregular income.



In the longer term, as part of the redevelopment of ICT systems for payments, consider introducing real time reporting and assessment of income and better integrate the tax, employment and income support systems.



Review means testing in relation to the new payment architecture to ensure:

- income support payments are targeted to those most in need
- rewards for work are clear
- negative effects of means testing such as income test 'stacking' and 'sudden death' assets thresholds are minimised
- people with similar means and circumstances receive similar levels of income support.

## Housing Assistance

In the new system, housing assistance should be recognised as a key component of securing social and employment outcomes.

The consultations on the Interim Report reinforced the need to address poor work incentives for public housing tenants (caused by income-based rents) and the discrepancies in government support between public and private tenants. A new approach is needed that gives similar housing support to people in similar circumstances.

The Government's White Paper on the Reform of the Federation is being developed and will seek to clarify Commonwealth and States' roles and responsibilities. This could change the Commonwealth's role in housing significantly.

## Recommendations



Reduce disincentives to workforce participation by moving from income based rents in public housing and extending Commonwealth Rent Assistance to public housing tenants.



Transition arrangements to move from income based rents in public housing would need to be carefully constructed and implemented over time to ensure people were given adequate time to prepare for the new arrangements. This could include grandfathering provisions for certain groups.



Review the levels and indexation of Commonwealth Rent Assistance to ensure that it appropriately reflects the costs of rental housing to tenants.



## Transition and Implementation

People currently receiving income support should not receive a reduction in the rate of payment when the new system comes into effect.

When people transitioning to the new system have obligations under their new payment these should be applied in a tailored way, taking account of their capacity, recent experience and previous obligations.

The new system will be the most fundamental structural reform of the income support system since its inception. Redeveloping the income support IT system in conjunction with income support payment reform is necessary for Centrelink to provide simpler, easier to manage claims and support services.

In addition to the redevelopment of the IT system, the ability to capture and integrate real time data, particularly income data from the Australian Taxation Office, would significantly reduce reporting requirements for people receiving income support and reduce the likelihood of debts being incurred.

To ensure a smooth transition, the Reference Group considers that a phased transition of payments is the best approach.

The first stage:

- the concurrent implementation of the
  - Supported Living Pension
  - Working Age Payment
- implementation of the Carer Payment
- reform of supplements.

The second stage:

- the implementation of the Child and Youth Payment (once the Supported Living Pension and Working Age Payment are fully implemented).

Changes to public housing income based rents and Commonwealth Rent Assistance should be considered in the context of the Review of Federation White Paper.

## Recommendations



In transitioning to the new system, no one has a reduction in their rate of payment.



Undertake a staged implementation of the new income support system:

- Stage One is the concurrent implementation of the Supported Living Pension, Working Age Payment, Carer Payment as well as changes to supplements and concessions for these groups.
- Stage Two is the implementation of the Child and Youth Payment as well as changes to supplements and concessions for this group.



Develop a new IT system that supports the income support reforms, enables greater use of technology and integrates real time data, particularly from the Australian Tax Office. This should make the system easier to administer and mean it is more transparent to individuals how working, or increasing hours, will affect payments. It should also reduce individuals' reporting requirements and lower the likelihood of debts being incurred.



Reduce red tape by minimising legislative, administrative and reporting complexity.

## Pillar Two

### Strengthening Individual and Family Capability

Supporting people to live a life they value should be a core value of the social support system.

Pillar Two focuses on how the social support system can do that by strengthening individual and family capability.

The new social support system should identify and invest in the groups at greatest risk of remaining on income support long term, with a capacity for self reliance.

An actuarial approach should be used to identify groups at risk of long term income support reliance.

Mainstream services would comprise a broad range of services designed to support people on their path to self reliance through work.

An investment approach would provide necessary support to those who are at significant risk of long term income support reliance and have capacity for self reliance through work with the right support and intervention.

New Zealand has introduced an investment approach for the long term management of its income support system. The Reference Group considers Australia should adopt something similar.

### Mainstream Services

Mainstream services should comprise a range of core supports to assist people to work to their capacity and lead a life they value.

These services include: building capability for work; financial capability development; family support; services to improve outcomes for children; support to manage mental health conditions; and assistance to stabilise housing.

In the new social support system these services should be delivered with a greater focus on achieving long term outcomes for individuals, families and communities.

### Building capability to work

There are three distinct skill sets that an individual needs to succeed in the workplace. These are:

- technical or discipline specific skills
- language, literacy and numeracy skills
- employability skills (ability to navigate the world of work; social interaction skills; ability to get work done).

These skill sets can work together to create a strong base to support people into work, and to make job transitions across their careers.

## Developing financial capability

Good financial literacy allows individuals to pursue and achieve financial and lifestyle goals.

Income management should be used judiciously and delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.

## Family Support

Well functioning families provide a strong foundation from which individuals can begin a pathway to self reliance. Families that function well generate benefits for individual family members as well as for communities and government.

One important aspect of well functioning families is access to affordable childcare, which can provide parents with the opportunity to find a job or participate in education or training.

Evidence shows that young people growing up for prolonged periods in dysfunctional or jobless families can have poor developmental outcomes.

There needs to be a greater emphasis on prevention in the provision of services targeted at young children at risk of disadvantage. In particular, there is a need to ensure that children are not disadvantaged in terms of their early physical, social and educational development.

## Mental health services

Mental health conditions are becoming more prevalent in Australia. About 30 per cent of people currently receiving the Disability Support Pension have psychiatric or psychological conditions and it is the largest category within the Disability Support Pension.

There are different degrees of work capacity within different groups:

- Some people with mental health conditions are unlikely to have work capacity now or in the future and no expectations should be placed on them.
- Some people with episodic mental health conditions will have periods of relative wellness where they are able to participate in activities that are part of a recovery plan including work.

Requirements and obligations within the social support system should be flexible enough to cater for these differences.

## Housing

Housing is essential to support employment and wellbeing and assist people on their path to self reliance.

Affordable housing with access to jobs and services is essential to allow people to participate socially and economically. Importantly it provides a stable base for raising children and supports community engagement.

Research shows that homelessness disproportionately affects certain groups in the population. For example a significant proportion of people who are homeless also have mental health conditions and struggle with substance abuse.

The new social support system should have the capacity to identify when a person's housing situation is unstable. Information such as frequent address changes in the income support system should trigger an inquiry and if appropriate rapid referral to homelessness support service providers.

## Recommendations

- » Ensure that young people remain engaged in education or training until they are able to transition into sustainable employment.
- » Through funding and agreements, the Australian Government should develop the capability of disadvantaged groups to work through:
  - technical and discipline specific skills
  - language, literacy and numeracy skills
  - employability skills.
- » Continue to provide financial literacy training and support services targeted at vulnerable groups in order to increase their financial capability, build savings, and access to finance.
- » Income management should be used judiciously and should be delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.
- » Fund and evaluate services to support family functioning, including initiatives targeted at jobless families, to ensure their effectiveness.
- » Ensure quality and affordable childcare is available for parents to participate in education, training and work.
- » Continue to fund early intervention programmes to improve children's early physical, social and educational development.
- » Ensure that integrated employment and mental health services are available to people with mental health conditions. This can be with employment and mental health services co located, or an effective partnership between employment and mental health services to ensure a wraparound service.
- » Governments should ensure that housing and homeless support services build strong links with mental health and employment services to address the multiple and complex barriers facing people who are homeless or at risk of homelessness.

## An Investment Approach

An investment approach reduces future liability associated with long term income support dependence by targeting investment to build peoples self reliance.

The investment approach should be a central feature for Australia's new social support system. It should work in tandem with the new payment architecture outlined in Pillar One.

## The New Zealand Investment Approach

New Zealand has introduced an investment approach for the long term management of its income support system. This new strategy is focused on getting people into jobs through investment in evidence based services where return on investment is likely to be highest.

A key aspect of this approach is the use of an actuarial valuation to establish lifetime costs (liability) of both the overall income support system and of specific groups within the system.

The 2013 actuarial revaluation of the New Zealand social support system found that the forward liability had reduced from NZ\$86.8 billion to NZ\$76.5 billion, a total reduction in lifetime liability of NZ\$10.3 billion. This was NZ\$7.4 billion lower than the result forecasted in 2012. After taking into account forecast changes in CPI and unemployment rates, NZ\$1.8 billion of the lifetime liability reduction can be directly linked to the interventions made as part of the investment approach.

## An Australian Investment Approach

An Australian investment approach would reduce long term income support reliance through targeted investments.

Targeted investments should be designed to achieve a return on investment, increase people's self reliance and reduce the lifetime liability of Australia's social support system. In addition to improving the lives of people at risk of long term income support reliance this would improve the fiscal and social sustainability of the social support system over the long term.

Key features of an Australian investment approach should be:

- **Valuation and Revaluation**—an initial actuarial valuation will be supported by annual revaluations that will calculate the new lifetime liability for the income support system. It will determine the return on investment through the reduction in the liability. It will also identify new groups for investment.
- **Evidence based Interventions and Locally Designed Services**—a broad range of support services will be available to provide tailored services for at risk groups.
- **Flexible Funding Pool**—the investment approach relies on flexible funding. This includes the ability to cash out programmes with poor outcomes and invest in new programmes.
- **Monitoring**—ongoing monitoring of service outcomes will contribute to the data and evidence for evaluations and revaluations.
- **Evaluation**—rigorous evaluation of services will ensure that support services are delivering outcomes for individuals in the income support system.

## Recommendations

-  Develop and implement an Australian investment approach.
-  As a first step in the investment approach, undertake a comprehensive actuarial valuation of the lifetime liability of the income support system.
-  Based on the actuarial valuation, invest in those groups with the largest lifetime liability and the capacity to move to self reliance.
-  A revaluation should be conducted every year to determine whether there is a return on investment and to identify new priority groups with higher lifetime liabilities.
-  A test and learn funding pool should be available to fund and evaluate trials of new interventions.
-  Implement a flexible funding programme that is responsive to emerging and local needs, responds to evaluations by redirecting funding, identifies programmes that are not delivering outcomes and ceases funding with resources redirected back into the investment pool.
-  Implement an evaluation capability to ensure that services are evaluated and an evidence base developed to support future investments.
-  Enhance existing and build new programme management information (MI) systems, along with advanced data analytics expertise, to support an effective evaluation capability.

## Mutual Obligation

In consultations, numerous stakeholders supported the concept of mutual obligation, but highlighted that conditions must be tailored to an individual's circumstances, needs and capacity. This includes consideration of non work activities for some groups where employment is not a realistic outcome in the short term or where there are significant barriers to employment.

Mutual obligation requirements need to follow this tailored approach and include both employment and social activities where appropriate. Conditions placed on the receipt of income support should be targeted to strengthen individual capability and assist a person with capacity on a pathway to paid employment.

Tailored mutual obligation must be matched by a responsive and individualised service system that supports the individual and ensures they are capable of meeting the conditions placed on them.



A more tailored and flexible approach to mutual obligation should be available to service providers to assist individuals on their path to employment.



## Pillar Three

### Engaging with Employers

The labour market has changed over the past few decades, with more highly skilled jobs, increasing part time work, flexible working arrangements and growing and emerging industries. As the labour market changes, the needs of employers change. Training and education needs to keep pace with the needs of employers to ensure people have the best chance to obtain a job.

### Where are the Jobs?

There is currently a shortage of jobs in many fields and a mismatch of jobs in others with skills shortages in a number of occupations. Employment is projected to increase, from 2013–18, in 16 of the 19 broad industry groups, providing a range of opportunities for people disadvantaged in the labour market.

Understanding what type of jobs are available now and what they may be in the future, can assist in supporting prospective employees to gain the relevant skills to find sustainable long term work.

Employers will also have the benefit of drawing on a pool of prospective employees who have the appropriate skills, regardless of whether the individual is from a disadvantaged group.



Investment in training and education should be better targeted to both current and future jobs to ensure people have the best possible opportunity to secure sustainable employment.

### Role of Employers

Many employers have ongoing commitments to diversifying their workforces and have embedded diversity into their recruitment practices, recognising the business potential of engaging people outside the mainstream recruitment pool.

Such employers know that employing a diverse workforce leads to a competitive edge, as their employee profile may better reflect the diversity of their customer or client base. It also has a positive effect on a company's reputation and brand.

People with disability consistently perform better than other workers, across a range of indicators of job performance, attendance, safety and insurance costs.

Changing negative employer attitudes to disadvantaged groups has long term benefits for business and positive outcomes for prospective employees from disadvantaged groups.

Large organisations such as Westpac Group, Telstra, Toll, IBM, Woolworths, ANZ and News Corp Australia are among a growing number of companies championing the business case for employing a diverse and inclusive workforce.

There are a number of good examples of demand led employment models driven by industry and employers to support them to meet their workplace demands. These include the Australian Employment Covenant.

In the new social support system, such successful models and initiatives should continue, to ensure disadvantaged groups are supported in achieving employment outcomes.

Many of these initiatives involve close partnerships with industry, government, community sector and prospective employees to achieve lasting employment outcomes.

## Better Support for Employers

Better supports are needed for employers to ensure there are sustained employment outcomes that benefit both employer and employee. This includes during the recruitment phase and placement and post placement support.

Support for employers is needed to attract suitable candidates, assist them with training, provide mentoring and support and retain employees.

Employers can also be assisted through initiatives that support young people on the pathway from study to work. These initiatives establish relationships between employers, community and business, providing support to individuals, ensuring there is a clear line of sight from education, training or work experience, to employment.

Wage subsidy schemes need to be linked with supports for both prospective employees and employers to achieve long term employment outcomes. This will assist in ensuring that employees in the schemes are provided sufficient support to be retained by employers after subsidies are no longer available.

## Recommendations



Promote initiatives that support pathways from school to work through establishing relationships between employers, community and business, based on the principles of successful models.



Promote wage subsidy schemes to provide incentives for small to medium sized enterprises to encourage recruitment of people with disability and mental health conditions for up to twelve months.



Employment Providers and Disability Employment Services Providers achieve better jobs and skills matching.



Improve the assessment and referral arrangements for jobseekers to ensure that there are stronger linkages between Centrelink and employment services to ensure better employment outcomes.



Ensure there are placement and post placement support services for people with disability and mental health conditions, including disability awareness training, mentoring and employer support based on the principles of successful existing models.

## Jobs Plan for People with Disability and Mental Health Conditions

A Jobs Plan with initiatives that increase workforce participation for disadvantaged people is needed to ensure all Australians gain the benefits of employment growth.

In the first instance, a Jobs Plan for people with disability and mental health issues should be developed.

The key components of the Jobs Plan for people with disability and mental health conditions, that could be adapted for various disadvantaged groups, include:

- tailored support services
- awareness raising campaign
- a leaders group
- awards to recognise best practice
- government employment targets
- procurement practices
- an employment covenant
- wage subsidies.

## Recommendations



Develop Jobs Plans for groups at risk of poor employment outcomes as identified by the Australian investment approach.



In the first instance, develop a Jobs Plan for people with disability and mental health conditions which includes:

- tailored support services including integrating employment services with mental health services
- an awareness raising and education campaign to promote the benefits of employing people with disability and mental health conditions and the services and supports that are available
- a leaders group to bring together key leaders in the disability sector, business and government to develop practical strategies to increase employment of people with disability and mental health conditions
- industry led awards should be established to recognise good employment practice across different sectors
- setting targets across government for employment of people with disability and mental health conditions across all employment levels
- governments and businesses consider procurement from organisations with established records of employing people with disability and mental health conditions
- a covenant for people with disability and mental health conditions should be developed in collaboration with industry, government and civil society
- promotion of improved and streamlined wage subsidies for organisations, including small to medium enterprises to employ people with disability and mental health conditions for up to twelve months.

## Pillar Four

### Building Community Capacity

A well functioning social support system should work in tandem with strong communities to improve employment and social outcomes for jobseekers and disadvantaged Australians. To facilitate this, a new system should support communities to build their capacity.

In this new system, there are roles to be played by civil society, business and government, both individually and in partnership. There is also an important role for technology to support civil society, business and government in building community capacity.

### Role of Civil Society

Partnerships between civil society organisations have a proven track record of building communities' capacities and those of individuals and families within them.

Civil society includes organisations with a primary focus on a social purpose, whether local, regional or national, voluntary, not for profit or social enterprise.

Civil society can collaborate with business and government. Such partnerships are often the source of innovation, drawing on the expertise, experience and resources of the broader community.

Philanthropy is a key driver of civil society and some \$11 billion is received by civil society per annum in Australia.

However, there is little benefit in increasing philanthropy if funds are not directed effectively.

There should be the development of an efficient capital market for social purpose to facilitate strategic investments and ensure clear outcomes.

A social purpose capital market should facilitate investments with a social impact through Social Impact Bonds, an investment model whereby government pays for agreed social outcomes that result in better outcomes for individuals and families and a longer term saving to Government.

Social enterprises are another means to build community capacity. These organisations are led by an economic, social, cultural or environmental mission consistent with a public or community benefit. Australia would benefit from a long term strategy to support social enterprise development.

Civil society also offers opportunities for unemployed volunteers to work alongside their employed counterparts to allow for mutual learning and the forging of networks that can lead to future employment.

Social participation involved in volunteering is beneficial for the individuals involved and the community as a whole.

## Recommendations

- » Develop annual awards to acknowledge, showcase and promote outstanding partnerships between civil society organisations, business and government.
- » Review the regulatory environment to reduce red tape and remove barriers to philanthropic giving.
- » Governments should work with civil society organisations and business to deliver an effective, efficient and sustainable capital market that better directs financial investment towards social purposes and solving social problems.
- » Expand outcomes based social purpose investment models, including Social Impact Bonds, to target financial investments towards addressing social problems.
- » Develop a longer term strategy for social enterprise development. This strategy will consider how to increase demand for investment by enterprises, increase supply of investment to enterprises and improve the enabling environment for social enterprises.
- » Support initiatives to grow the rate of volunteering as an avenue for social and economic participation, in particular for jobseekers, carers and people with a partial capacity to work.

## Role of Business

Businesses play a leading role in providing employment, economic growth and government revenues. Businesses also increasingly support better social outcomes for the communities in which they operate. Micro businesses, small to medium enterprises (SMEs), large businesses as well as mutuals and co operatives and social businesses, all play a role in building the capacity of communities to improve employment and social outcomes.

Corporate Social Responsibility (CSR) is a concept that involves businesses ensuring their conduct is legal, ethical and sustainable. When properly adopted, CSR is beneficial for local communities and for a range of groups, including disadvantaged and vulnerable individuals and families. CSR will be an important feature of the new social support system. Social procurement, where a social outcome or objective influences the purchasing of a good or service, is another way business can demonstrate CSR.

Micro businesses (less than five full time employees) are responsible for employing around 20 per cent of individuals, tend to be more embedded in their local communities, and are active contributors to community capacity building.

However, approximately 60 per cent of small businesses fail within their first three years of operation. There is a need for programmes which support entrepreneurs to establish micro businesses.

Microfinance is another example of the role of business and investment in community capacity building. Financial independence and access to loans are important elements of building individual capacity and community participation.

Throughout consultations, it was recommended that Government, financial institutions and civil society organisations work together to develop specific microfinance programmes for microbusiness start ups and for job seekers who need support to transition into work.

Mutuals and co operatives are grassroots businesses owned and operated at a local level to contribute to local economic development and demonstrate strong potential to empower communities through partnerships and cooperation.

There are a number of impressive examples of mutuals and co operatives currently operating in Australia including the Traditional Credit Union, Bankmecu, Westfund Health Insurance and Macleay Regional Co operative Limited.

The Business Council of Co operatives and Mutuals recommends that the Australian Government promote the value to civil society of mutuals and co operatives, noting their potential to: generate positive social outcomes for individuals and communities; generate economic and social resilience for individuals; communities and organisations; achieve higher levels of consumer engagement; and improve employee wellbeing in the delivery of services.

## Recommendations

-  Work with business and civil society organisations to promote the benefits of Corporate Social Responsibility.
-  Expand support and eligibility for programmes that provide funding and training to enable people to set up micro businesses.
-  Work with the Business Council of Co operatives and Mutuals to ensure an enabling regulatory, economic and social environment to support mutuals and co operatives.

## Role of Government

In the new system, the role government plays in building community capacity extends to the local, state and federal levels of government. It is a role that includes funding support services and providing community investment on the one hand and regulation and coordination on the other hand.

Recognising that local needs and issues are best understood by local communities, governments can benefit from allowing communities to contribute to policy design. Through co design government can actively engage with local communities to develop policy settings tailored to them. When performed effectively, co design can lead to better and more responsive services, engage individuals socially and build social capital through enhancing community cohesion.

## Recommendation



- Adopt the principles of co design in developing policies and programmes aimed at building community capacity, by drawing on the expertise of consumers, business and community stakeholders, exploring innovative ideas, testing initiatives and evaluating interventions.

## Role of Technology

The new social support system includes an important role for technology in building the capacity of communities. Increased access to information and communication technology is an essential tool for people to participate socially and economically.

There is an increasing digital divide where disadvantaged individuals are most at risk of digital exclusion. Government, business and civil society have a role in promoting digital inclusion by providing people skills and confidence to use technology.

Government has a role in both providing the infrastructure for technology and supporting disadvantaged individuals to access it. Civil society organisations need to be proactive in providing disadvantaged individuals access to technological equipment, tools, advice and training.

Given the increasingly digital labour market, business also has a role to play in delivering access to technology and providing individuals with the skills necessary to navigate modern technological workplaces.

## Recommendations



- Ensure jobseekers and disadvantaged groups have adequate information and communication technology (ICT) skills and access to ICT, in particular access to online employment and support services and job opportunities in the new system.



- Work with civil society and business organisations to advance ICT skills and access for people with disability and mental health conditions to jobs and services.



# Consolidated List of Recommendations

## Pillar One



Implement a new architecture for the income support system that is employment focused. The new system will be simpler, more coherent and clearly reward work.



Introduce a new payment architecture with five main payments, which aims to encourage education and work and which recognises that people's capacity to work can be limited by disability or caring.

- The five main payments be:
  - a Working Age Payment—a means tested payment for adults who are expected to work now or in the future, with three tiers to reflect the varying needs and capacity of individuals to work:
    - The Upper Tier should be for people who have a limited capacity to work and due to this are more likely to stay on payment for a longer duration.
    - The Middle Tier should be for people with moderate limitations on their capacity to work and parents and primary carers of dependent children and dependent young people under the age of 22.
    - The Foundation Tier should be for people with full capacity to work or study.
  - A Supported Living Pension—a means tested payment for individuals over 22 who are permanently and severely restricted in their capacity to work.
  - A Child and Youth Payment—a means tested payment paid to parents for dependent children and dependent young people, until the age of 22.
  - A Carer Payment—a means tested payment for individuals over 22 with caring responsibilities.
  - An Age Pension—a means tested payment for people over the Age Pension age.



Consider the Productivity Commission's final report on Childcare and Early Childhood Learning alongside proposed reforms to the income and social support systems, to improve supports for parents to participate in education and employment.



Design transitions to ensure that no individual moving from the old system to the new system will experience a reduction in their rate of payment.



Review all supplements alongside the detailed design of the new payment architecture.



Supplements in the new system should be for clearly defined purposes and specific extra costs.



Implement four categories of supplements as follows:

- Housing
- Child and Family
- Education
- Carer and Disability.



Retain concession cards as a component of the social support system. Income support recipients and low income earners should receive concessions to assist with health costs and certain goods and services.



Adopt a twin tracked approach to payment adjustments across all income support payments:

- a community living standards adjustment following a periodic review (at least every four years) undertaken by a panel of experts.
- An automatic cost of living adjustment every six months, following a process to determine the most appropriate cost of living index for the new payment architecture.



The expert panel established to review community living standards should consider a wide range of relevant factors in providing its advice to Government on changes in community living standards.



The review should be undertaken at least every four years to determine whether payment levels are appropriate relative to community living standards. The review should be open, transparent and published.



The Government should review current measures to index payments to cost of living (CPI and PBLCI) and determine the most appropriate index to use across all payments in the future.



Introduce a 'Passport to Work' for income support recipients—a set of personalised guidelines which describe how much better off people will be in work and reduce the fear of taking a job. The main elements of the Passport to Work should include:

- an assurance that, if hours reduce or work ends within a defined period, that people can transition back to their previous income support entitlement
- the retention of eligibility for concession cards for a significant period of time, for people who return to work or increase their hours
- a comprehensive and clear impact statement of how income support will be affected as hours of work or income change. This statement will be personalised and cover payments, supplements and concessions and will be available online.



Review and refine current income banking arrangements, income free areas and taper rates to ensure they deliver greater consistency and clearer rewards for work under the new system of income support.



Ensure that income tests are consistent within each payment category and to the greatest extent possible across payments.



Ensure that income banking arrangements are available for people to smooth income earned, particularly from casual work and for students. Income banking arrangements should be simple and easy for people to calculate the impact of irregular income.



In the longer term, as part of the redevelopment of ICT systems for payments, consider introducing real time reporting and assessment of income and better integrate the tax, employment and income support systems.



Review means testing in relation to the new payment architecture to ensure:

- income support payments are targeted to those most in need
- rewards for work are clear
- negative effects of means testing such as income test 'stacking' and 'sudden death' assets thresholds are minimised
- people with similar means and circumstances receive similar levels of income support.



Reduce disincentives to workforce participation by moving from income based rents in public housing and extending Commonwealth Rent Assistance to public housing tenants.



Transition arrangements to move from income based rents in public housing would need to be carefully constructed and implemented over time to ensure people were given adequate time to prepare for the new arrangements. This could include grandfathering provisions for certain groups.



Review the levels and indexation of Commonwealth Rent Assistance to ensure that it appropriately reflects the costs of rental housing to tenants.



In transitioning to the new system, no one has a reduction in their rate of payment.



Undertake a staged implementation of the new income support system:

- Stage One is the concurrent implementation of the Supported Living Pension, Working Age Payment, Carer Payment as well as changes to supplements and concessions for these groups.
- Stage Two is the implementation of the Child and Youth Payment as well as changes to supplements and concessions for this group.



Develop a new IT system that supports the income support reforms, enables greater use of technology and integrates real time data, particularly from the Australian Tax Office. This should make the system easier to administer and mean it is more transparent to individuals how working, or increasing hours, will affect payments. It should also reduce individuals' reporting requirements and lower the likelihood of debts being incurred.



Reduce red tape by minimising legislative, administrative and reporting complexity.

## Pillar Two

- » Ensure that young people remain engaged in education or training until they are able to transition into sustainable employment.
- » Through funding and agreements, the Australian Government should develop the capability of disadvantaged groups to work through:
  - technical and discipline specific skills
  - language, literacy and numeracy skills
  - employability skills.
- » Continue to provide financial literacy training and support services targeted at vulnerable groups in order to increase their financial capability, build savings, and access to finance.
- » Income management should be used judiciously and should be delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.
- » Fund and evaluate services to support family functioning, including initiatives targeted at jobless families, to ensure their effectiveness.
- » Ensure quality and affordable childcare is available for parents to participate in education, training and work.
- » Continue to fund early intervention programmes to improve children's early physical, social and educational development.
- » Ensure that integrated employment and mental health services are available to people with mental health conditions. This can be with employment and mental health services co located, or an effective partnership between employment and mental health services to ensure a wraparound service.
- » Governments should ensure that housing and homeless support services build strong links with mental health and employment services to address the multiple and complex barriers facing people who are homeless or at risk of homelessness.



Develop and implement an Australian investment approach.



As a first step in the investment approach, undertake a comprehensive actuarial valuation of the lifetime liability of the income support system.



Based on the actuarial valuation, invest in those groups with the largest lifetime liability and the capacity to move to self reliance.



A revaluation should be conducted every year to determine whether there is a return on investment and to identify new priority groups with higher lifetime liabilities.



A test and learn funding pool should be available to fund and evaluate trials of new interventions.



Implement a flexible funding programme that is responsive to emerging and local needs, responds to evaluations by redirecting funding, identifies programmes that are not delivering outcomes and ceases funding with resources redirected back into the investment pool.



Implement an evaluation capability to ensure that services are evaluated and an evidence base developed to support future investments.



Enhance existing and build new programme management information (MI) systems, along with advanced data analytics expertise, to support an effective evaluation capability.



A more tailored and flexible approach to mutual obligation should be available to service providers to assist individuals on their path to employment.

## Pillar Three

- » Investment in training and education should be better targeted to both current and future jobs to ensure people have the best possible opportunity to secure sustainable employment.
- » Promote initiatives that support pathways from school to work through establishing relationships between employers, community and business, based on the principles of successful models.
- » Promote wage subsidy schemes to provide incentives for small to medium sized enterprises to encourage recruitment of people with disability and mental health conditions for up to twelve months.
- » Employment Providers and Disability Employment Services Providers achieve better jobs and skills matching.
- » Improve the assessment and referral arrangements for jobseekers to ensure that there are stronger linkages between Centrelink and employment services to ensure better employment outcomes.
- » Ensure there are placement and post placement support services for people with disability and mental health conditions, including disability awareness training, mentoring and employer support based on the principles of successful existing models.
- » Develop Jobs Plans for groups at risk of poor employment outcomes as identified by the Australian investment approach.
- » In the first instance, develop a Jobs Plan for people with disability and mental health conditions which includes:
  - tailored support services including integrating employment services with mental health services
  - an awareness raising and education campaign to promote the benefits of employing people with disability and mental health conditions and the services and supports that are available
  - a leaders group to bring together key leaders in the disability sector, business and government to develop practical strategies to increase employment of people with disability and mental health conditions
  - industry led awards should be established to recognise good employment practice across different sectors

- setting targets across government for employment of people with disability and mental health conditions across all employment levels
- governments and businesses consider procurement from organisations with established records of employing people with disability and mental health conditions
- a covenant for people with disability and mental health conditions should be developed in collaboration with industry, government and civil society
- promotion of improved and streamlined wage subsidies for organisations, including small to medium enterprises to employ people with disability and mental health conditions for up to twelve months.

## Pillar Four



Develop annual awards to acknowledge, showcase and promote outstanding partnerships between civil society organisations, business and government.



Review the regulatory environment to reduce red tape and remove barriers to philanthropic giving.



Governments should work with civil society organisations and business to deliver an effective, efficient and sustainable capital market that better directs financial investment towards social purposes and solving social problems.



Expand outcomes based social purpose investment models, including Social Impact Bonds, to target financial investments towards addressing social problems.



Develop a longer term strategy for social enterprise development. This strategy will consider how to increase demand for investment by enterprises, increase supply of investment to enterprises and improve the enabling environment for social enterprises.



Support initiatives to grow the rate of volunteering as an avenue for social and economic participation, in particular for jobseekers, carers and people with a partial capacity to work.



Work with business and civil society organisations to promote the benefits of Corporate Social Responsibility.





Expand support and eligibility for programmes that provide funding and training to enable people to set up micro businesses.



Work with the Business Council of Co operatives and Mutuals to ensure an enabling regulatory, economic and social environment to support mutuals and co operatives.



Adopt the principles of co design in developing policies and programmes aimed at building community capacity, by drawing on the expertise of consumers, business and community stakeholders, exploring innovative ideas, testing initiatives and evaluating interventions.



Ensure jobseekers and disadvantaged groups have adequate information and communication technology (ICT) skills and access to ICT, in particular access to online employment and support services and job opportunities in the new system.



Work with civil society and business organisations to advance ICT skills and access for people with disability and mental health conditions to jobs and services.



# Case for Reform

A broad consensus exists that Australia's social support system needs to be reformed. It has become complex and incoherent due largely to piecemeal changes over time. Some groups of people are now on payments that were not designed with their needs in mind. Rewards for work are weak for certain groups and unclear for others.

A new system should be simpler, fairer and better able to support people to enter and stay in employment. It should invest in people to prevent lifetime disadvantage.

The need for reform to social support systems has been recognised and is occurring across the world. Major reform in Australia is necessary and possible.

## Introduction

Based on the Interim Report and the input received through consultations and submissions, there are six core arguments for reform of the income and social support systems:

- The income support system is too complex and does not provide clear **rewards for work**. It is hard to understand and access, and difficult and inefficient to administer. It needs to be simpler.
- The income support system lacks **coherence**. The growing gap between allowances and pensions means some people in similar circumstances are receiving significantly different treatment.
- Fundamentally, too many people are still missing out on the **benefits of work**.
- The current system is out of step with current labour market realities and community expectations, and not well placed to cope with **future labour market and social challenges**.
- The social support system is failing to identify groups at risk of long term income support dependence and needs to refocus on **early intervention** and support through difficult **transitions**.
- The **social, fiscal and economic sustainability** of the social support system will be compromised without reform.

The Interim Report set up a strong case for reform. From the consultations and submissions, a range of issues were raised that reinforced the case for reform. Some of the main points included consensus that:

- The incentives to work for some groups are weak and this is exacerbated by the complexity of the system.
- The current social support system struggles to provide tailored and flexible support.
- Obligations placed on individuals do not always reflect the realities of the labour market and the challenges and risks of making the transition into work.
- Current payment rates are inadequate for certain groups.

- Employers' attitudes about the perceived risks associated with employing people from disadvantaged groups, including people with disability, should be addressed for the benefit of both employers and prospective employees.

## Towards a simpler system that rewards work

### Complexity

There are currently around 20 income support payment types and 55 supplementary payments available in a variety of packages of support. (See Australia's Income Support System 2014 diagram, next page).

The different payment categories have been developed to reflect the different pathways that may lead to receiving income support. However, the different pathways into the system say little about people's needs once they are receiving income support, or about the support services they may need to find work and increase self reliance.

A consistent theme from the consultations on the Interim Report was the complexity of the income and social support systems. This has a detrimental impact on individuals' ability to understand and access support and creates difficulties administering support effectively and efficiently.

The consultations and submissions confirmed what was identified in the Interim Report: income support recipients find it difficult to understand how the current social support system interacts with paid employment and with other systems such as the tax system and childcare benefits and rebates.

Many recipients are unclear about the benefits of work. The complexity of the system leaves some income support recipients believing that any work will jeopardise their benefits. This concern highlights that perceived risks can be as damaging as real risks in determining and influencing how recipients interact with the income support system.

### Similar needs, different support

The many different income support payments and supplements can create confusion and lead to inequities. People in similar circumstances, with similar basic living costs receive different levels of financial support and face different expectations of work.

Individuals may qualify for more than one payment and may find themselves receiving a payment that provides a lower level of assistance than another payment to which they may also be entitled.

Often individuals are required to reapply for a different income support payment as their circumstances change, due to the boundaries between payments. This can result in large changes in financial assistance apparently unrelated to the change in people's circumstances.

The total amount someone receives also depends on which basic payment rate and which, if any, supplements they are eligible for.

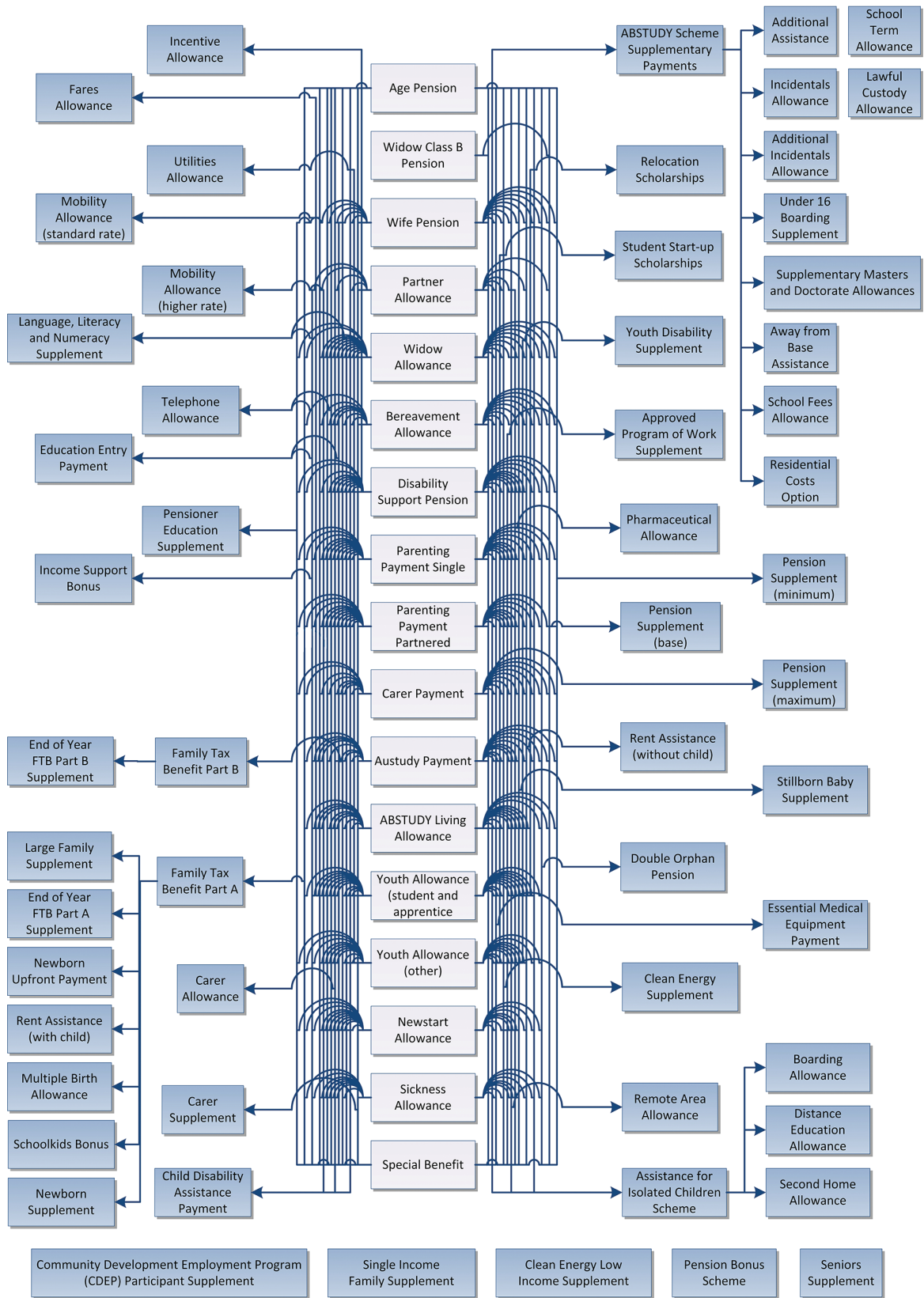
### Too many supplements

Some supplements have a strong rationale while others have remained in the system long after the rationale has passed. In some cases, more than one supplement is performing equivalent roles. In many cases, there is no reason why the supplement cannot be rolled into the primary payment.

There are multiple supplements to assist with the costs of living e.g. Utilities Allowance, Energy Supplement and Low Income Supplement. However, the basic income support rate itself should generally be sufficient to meet a person's cost of living.

Figure 1 below demonstrates the variety and complexity of packages of support which comprise combinations of income support payments and supplements.

Figure 1: Australia's Income Support System in 2014 (excluding payments to veterans)



## Income support for people with disability and mental health conditions

There are many people with disability or a mental health condition and a partial capacity to work who currently receive Newstart Allowance. People with a disability or a mental health condition and a partial capacity to work may only ever have the capacity to work part time and as a result will be reliant on income support to at least supplement their earnings for significant periods of time, if not indefinitely. Newstart Allowance does not appropriately support people who have an expectation of gaining only part time work such as people with a partial capacity to work.

The current system does not work well for people with mental health conditions. People with a mental health condition that is episodic in nature are not provided with adequate support to participate in work during periods of relative wellness, when participation could be a key part of a recovery plan.

Income support payments for people with disability need to better differentiate between permanent and temporary incapacity. At present the definition of permanent incapacity used to assess eligibility for Disability Support Pension (DSP) relies on a disability or a mental health condition persisting for at least two years. This definition does not take account of modern advances in working with people with disability and mental health conditions to improve their future employment capacity.

## Multiple options for people over the Age Pension age

The rules around qualifying for alternative payments over Age Pension age are arbitrary, leading to different people in the same circumstances receiving different levels of support. While an individual on DSP or Wife Pension will qualify for the Age Pension on reaching pension age, there is no requirement for them to transfer to it.

As a consequence, there is a growing trend for people over the Age Pension age to receive payments other than Age Pension. A minority of these people are not eligible for Age Pension due to the 10 year residency rule. In many cases, however, it is because people are attracting additional entitlements, which were designed to meet the needs of working age people, not retirees.

## Support for Children and Young People

Multiple payments and inconsistent rules around payments for dependent children and young people create further complexity. Family Tax Benefit is the primary payment for dependent children. However, dependent children over 16 years can receive Youth Allowance or Disability Support Pension and Indigenous children and young people can receive ABSTUDY living allowance, which have different rate structures and parental income tests. The result is:

- arbitrary differences in assistance for children in similar circumstances
- reductions in assistance when moving between payments
- optimum payment combinations changing with family circumstances
- families facing multiple means tests to determine their capacity to support children on different payments
- a payment system that does not reflect the costs of children as they get older.

The last point above is a significant flaw in the current system of family payments aimed at assisting families with the costs of raising children. For example, the maximum rate of Family Tax Benefit part A remains the same for children aged 13–15 years and for young people aged 16–19 years. While a lower maximum rate of Family Tax Benefit part A applies to children aged under 13 years, this same rate applies for all children in the wider age range of 0–12 years.

However, research shows the costs of children increase as they get older, reflecting older children's food consumption, clothing needs, the cost of other school-related items and increasing social needs. The costs of children increase markedly at key points in the lifecycle, such as starting primary school, starting secondary school and entering the final two years of secondary school.

## Payment Rates, Means Testing and Marginal Tax Rates

A central feature of Australia's social support system is targeting need using means testing. People who have earnings from work, unearned income from investments or significant assets, receive reduced payments or no payments at all. There are two key benefits of this approach: there are more funds available to support those in need; and the net cost to government is lower.

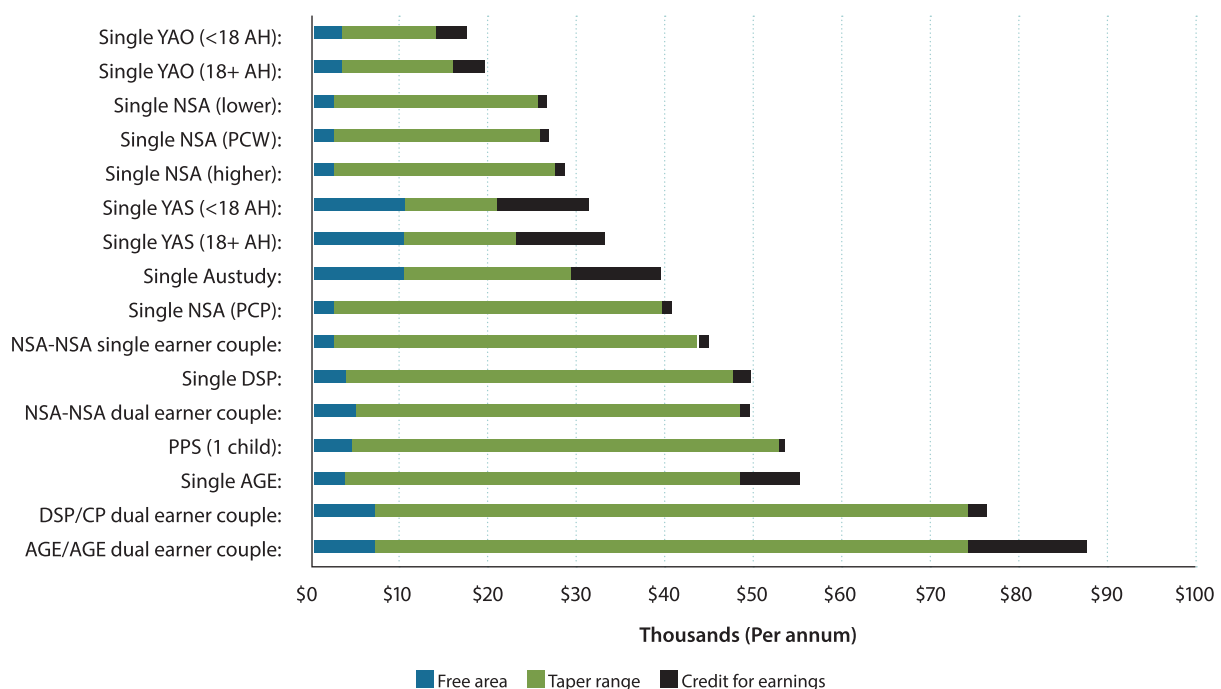
However, means testing has consequences for people's behaviour. Income support payments reduce as a person's income from work increases. If income support is withdrawn too quickly, people may not gain enough income from their earnings and will lose the incentive to work.

The complexity of current income testing arrangements means that income support recipients are confused about the rewards for working. This may make them reluctant to take up work out of concern they would be worse off.

Income support recipients told the Reference Group they find the income tests difficult to understand and that this can mean the benefits of working are unclear.

## Multiple income tests

Figure 2: Different income tests for different payments, March 2014





As Figure 2 shows, income tests in the Australian income support system are complex. Income test free areas and taper rates vary widely between different income support categories. This results in different rewards for working.

### Range of income tests and tapers

A person receiving Disability Support Pension who undertakes part time work will experience a smaller payment reduction than someone with disability who is on Newstart Allowance.

In addition, some people continue to receive income support when their earnings are above the minimum wage.

The inconsistencies can have unintended impacts and cause significant disruption to people who move between payment categories. A single parent with private earnings experiences a greater reduction in income support when their youngest child turns eight than a parent who is not working.

As well as income tests there are also assets tests that determine eligibility for income support in Australia. These are included to encourage people with low incomes but high assets to make use of their assets (including savings) to generate income or to support themselves.

### Simultaneous income tests

A further problem occurs when recipients are simultaneously subject to a number of different income tests at the same time. For example, public housing tenants can be affected by income based rent setting policies that increase rents by 25 cents for each extra dollar earned at the same time as income support payments are being reduced.

For families with children there are many examples where the interactions of different income tests and income definitions may reduce incentives to work.

If a family inadvertently underestimates its annual income for the Family Tax Benefit part A or B income test, it faces the prospect of having to repay a debt. On the other hand, overestimating their income means it may be underpaid their Family Tax Benefit, and has less disposable income to meet day to day costs.

### Effective marginal tax rates

A major issue in the design of income support means tests is that payments reduce at the same time as individuals are required to start paying personal income tax.

The combined effect of income test withdrawals and tax obligations on the rewards for working is referred to as the 'effective marginal tax rate' (EMTR). Effective marginal tax rates are typically higher than either income test tapers or marginal tax rates. As people in receipt of government benefits earn additional income, they not only pay tax on that additional income but also experience a withdrawal of benefits at the same time. This can reduce the incentives for people to work and become self reliant.

The design of a new simpler system should take account of payment and tax interactions, to ensure sufficient incentives to work and provide certainty for individuals about the financial outcomes of work.

## Targeting need under the assets test

Newstart Allowance and Parenting Payment (Single) recipients are subject to an assets test limit set at the value of the assets test threshold, rather than a progressive reduction in assistance under an assets test taper.

This 'sudden death' limit can result in people with similar asset holdings receiving different levels of assistance. For example, a person who is just above the assets test will receive no income support whereas someone just below the threshold will receive the maximum rate of payment.

## Definitions of income

The current system has inconsistent definitions of income and different periods over which income is assessed.

For example, Family Tax Benefit part B uses an adjusted taxable income definition and an annual period of assessment, while the income support system uses an ordinary income definition from social security law and a fortnightly period of assessment. The Youth Allowance parental income test uses a modified taxable income definition based on an earlier tax year. The child support scheme has a different definition.

This is confusing for people in the income support system and is costly to administer.

## Payment Duration and Transitions

There are individuals with long durations on multiple income support payments.

There is a high incidence of people on income support payments such as Newstart Allowance transitioning onto Disability Support Pension. At end June 2013, 35 per cent of Disability Support Pension recipients (who were not receiving Disability Support Pension 12 months earlier) were Newstart Allowance recipients. There were similar figures over the previous decade (35 per cent at end June 2002).

The average length of time that individuals on Newstart Allowance have been on the payment is 108 weeks. However, the average length of time that individuals on Newstart Allowance have been on an income support payment is 230 weeks.

Similarly, the average length of time that individuals on Disability Support Pension have been on the payment is 547 weeks. However, the average length of time that individuals on Disability Support Pension have been on an income support payment is 691 weeks.

It is important that the income support system works to provide timely interventions for people of working age with risks of long term reliance and there are concerns that this does not sufficiently happen at present.

Over 63 per cent of carers who exit from Carer Payment before Age Pension age transition to another form of income support such as Newstart Allowance. Two out of three individuals receiving the Carer Payment in 2011 remained on income support three years later.

## System Coherence

A coherent system is one that is logical and consistent in its design.

Over the years, the operation of automatic payment indexation measures, changing priorities and ad hoc policy responses have led to a 'patchwork quilt' income support system that lacks coherence and can lead to inequities. People with similar basic living costs may receive very different levels of financial support, with different expectations of work.

These differences significantly reduce the effectiveness of the system and lead to incentives for people to try to qualify for higher income support payments, rather than build their capacity and aim for greater self reliance through employment.

### Indexation and Benchmarking

Income support payments are regularly adjusted to reflect changes in the cost of living to ensure that their value is maintained in real terms. At present, these adjustments are made for both pensions and allowances but in different ways. In addition, pensions are currently adjusted for changes in community living standards through a linkage to Male Total Average Weekly Earnings. This has resulted in a growing gap between payment rates.

### Current Indexation Arrangements

Allowances: Indexed twice a year to the Consumer Price Index

Family Payments: Indexed once a year to the Consumer Price index

Pensions: Indexed twice a year to whichever is higher the Pensioner and Beneficiary Living Cost Index or the Consumer Price Index. Pension rates are benchmarked to Male Total Average Weekly Earnings

Adjusting income support payments to ensure they increase in line with broader changes in community living standards is not a simple issue and there are no simple solutions. There are existing and alternative approaches proposed to adjust income support payments. This is an area of current debate.

### Male Total Average Weekly Earnings Approach

Male Total Average Weekly Earnings (MTAWE) has been used as a proxy for community living standards for pensions but this is not necessarily a good measure for the following reasons:

- It is based on male incomes. In the past, male wages were considered 'breadwinner' wages and so historically it was seen as a determinant of family living standards. This does not reflect the current labour market.
- It is an average. The distribution of earnings is not symmetrical. About 65 per cent of people in work earn less than average earnings, while by definition only 50 per cent are below the median. Wage gains by high wage earners disproportionately affect the average wages but have much less effect on the median.

- It only factors in earnings and ignores capital income such as from shares. Capital incomes fluctuate with the business cycle but indicate a longer term increase since the 1970s. Capital income also impacts on community living standards.

While MTAWWE may not be the best measure, there is no clear agreement on the best way to track changes in community living standards, let alone how payments should be linked to them. The Henry Review noted that there is no agreed way to measure the adequacy of income support payments against community living standards.

### Previous reviews

The Harmer Review noted problems associated with MTAWWE as a measure to benchmark living standards, and suggested that if a wage measure was to be retained then the net income of an employee on median full time earnings may be a more appropriate benchmark. This would at least avoid the effects created by the widening distribution of hours worked, and the changing gap between median and average hourly earnings. It would not, however, account for the effects of changing household arrangements or changing savings and investment income on community living standards. Harmer also noted that a range of different reference series could be considered appropriate for benchmarking, such as household incomes and various earnings measures.

The Henry Review noted that reflecting changes in community standards cannot be achieved solely through automatic adjustments. While changes in community living standards as measured by wages are relatively easy to reflect with automatic adjustments; slower shifts, such as changes in the composition of households and the nature of workforce participation would be better dealt with through other benchmarks, including explicit and ad hoc government decisions.

### Linking to minimum wages

Some stakeholders have suggested the level of minimum wages could provide a link to community living standards.

It suffers the same problem, however, as all benchmarking to wages—that is, it cannot incorporate movements in living standards derived from household changes or changes in non earnings income.

More importantly, this would effectively place a substantial part of the Commonwealth Budget under the control of the Fair Work Commission members, who are required to make their National Minimum Wage decisions on grounds quite different from concerns over the living standards of either the general community or of income support recipients. This may have the potential to distort the processes and considerations of the Fair Work Commission, as the number of people receiving government payments is substantially larger than the number of people reliant on minimum wages.

### Linking to budget standards

A budget standards approach to determining minimum community living standards has been suggested by some stakeholders. This approach involved itemising the goods and services considered necessary for a household to achieve a particular lifestyle. However, there is no universal agreement as to what items should be included in the basket of goods and services.

The budget standards would have to be regularly reviewed and the items included and those excluded would be contentious. Assessing the expected life of household appliances and taking account of the ability to substitute between products is challenging when developing budget standards for low income households.

## Problems Caused by Inconsistency in Indexation

As noted above, payment adjustments have typically been automatic in nature and have been focused on maintaining the value of payments (in the case of allowances) or maintaining relativities to community living standards (in the case of pensions).

However, the operation of these differential adjustments over a long period of time has created a number of problems. The most notable example is the growing gap between pensions and allowances, which creates challenges in a number of areas:

- Incentives for individuals—large differences in entitlements can focus people on maximising income support payments rather than building their capability and finding a job, when they have the capacity to work.
- Complexity of administration and eroding community confidence in the system—the distorted incentives and lack of coherence in the system, caused by large differences in payments for different groups, mean governments have to increase efforts to prevent people seeking to claim the wrong payment. This can also undermine community confidence in the fairness of the system.
- Adequacy—the indexation of allowances to cost of living only has raised questions about whether the allowance rate adequately meets recipients' basic needs.

## Singles and Couples

The relative difference between payments for singles and couples is not the same for pensions as it is for allowances. Rates of pension payments for singles and couples were reset following the Harmer Review in 2009, but no similar work has been done on the difference between payment rates for singles and couples receiving allowances. As a result, the gap in payments between singles and couples on pensions versus allowances has not been considered for some time.

## Characteristics of People on Newstart

Policy changes during the past decade have changed the characteristics of the group receiving Newstart Allowance. There are now people receiving Newstart Allowance with little or no capacity to work full time, following the inclusion of people with disability with partial capacity to work and principal carer parents who are no longer eligible for Parenting Payment.

These policy changes along with economic conditions have increased the average duration of people on the Newstart Allowance. While more than half of entrants leave payment within 12 months, the average duration of recipients has increased from 159 weeks (more than three years) in July 2009 to 229 weeks (more than four years) in December 2013. People with partial capacity to work and single parents tend to stay on income support longer.

The average income support duration for someone on Newstart with partial capacity to work is 277 weeks, while average Income Support duration of a person on Newstart Allowance, not assessed as having partial capacity to work, is 217 weeks.

## Assistance with Housing

Housing is essential to support employment, education, job search activation and health. During the consultation process, stakeholders reiterated the central role housing plays in improving employment and social outcomes for income support recipients. Numerous stakeholders also expressed concerns about the adequacy of Commonwealth Rent Assistance, which has not kept pace with the growth in rents experienced by some income support recipients.

### Housing supply

The availability and affordability of housing that is close to jobs and services is important for economic participation, labour mobility and family wellbeing. However, rising house prices and rents are putting pressure on low and moderate income households.

The housing market in Australia is not supplying enough homes to meet demand. This results in increasing house prices. In major cities there is a shortage of affordable housing for average income earners close to employment. The situation is even more difficult for people on income support.

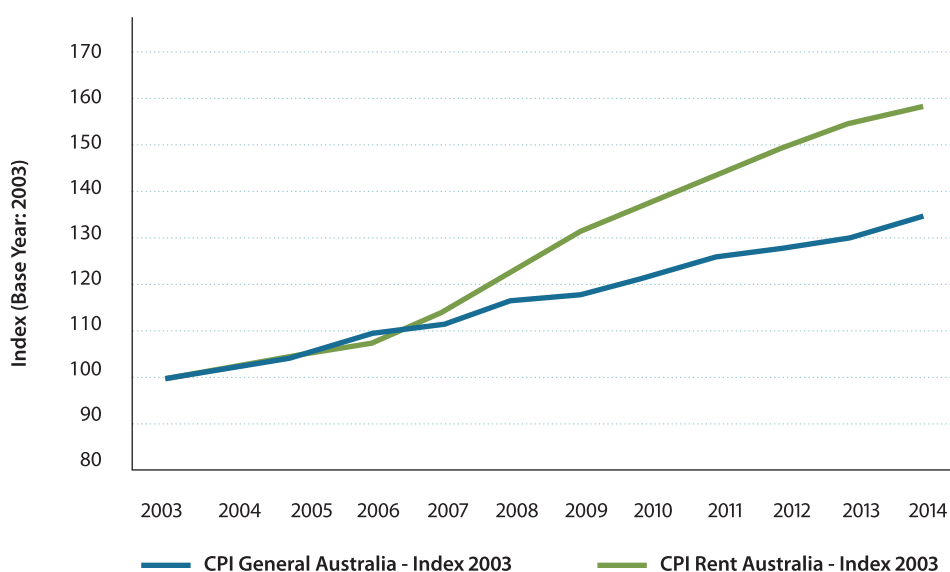
Housing supply is the responsibility of state, territory and local governments, and is of central importance to improving the affordability of housing and the rental market.

### Adequacy of Commonwealth Rent Assistance in the private rental market

Commonwealth Rent Assistance provides support for 1.3 million individuals and families in Australia to help pay the costs of private and community rental. Eligibility for Commonwealth Rent Assistance is conditional on eligibility for an income support payment or Family Tax Benefit part A.

Commonwealth Rent Assistance is indexed to the CPI, but private rents have been rising at a higher rate than the CPI for some time. This means Commonwealth Rent Assistance has been gradually becoming less effective in reducing financial stress for people in the private market. Over the past decade, the CPI for all groups increased by 31 per cent while the rent index rose by 54 per cent. This is shown in Figure 3 below. Over three quarters of recipients are paying enough rent to receive the maximum rate of Commonwealth Rent Assistance.

Figure 3 – Increase in CPI All Groups versus increase in Rent component of CPI



Source: Australian Bureau of Statistics (Cat 6401.0)

As a consequence of Commonwealth Rent Assistance falling behind the growth in rents, income support recipients have to cover more of the costs of rent (net rent) from their income support and family assistance payments, which reduces the income available to cover other living costs.

Commonwealth Rent Assistance is also targeted poorly. The structure of Commonwealth Rent Assistance means some people with relatively low rents will have most of their rent covered whereas others with quite high rents will only have a small proportion of rent covered.

### Income based rents in public housing

The private rental market charges market based rents, with Commonwealth Rent Assistance providing support to offset some of the costs of private rental.

Public housing charges rents as a proportion of income (about 25 per cent of income). This means that as a person in receipt of income support earns additional income, they not only pay tax on that income, but also pay about 25 per cent more rent while losing their income support. This creates a disincentive to work. It is estimated that around 110,000 recipients are in 'employment traps' where high effective marginal tax rates discourage work.

In families where there are multiple income earners including young people, all household income is counted when determining income based rents. This becomes a disincentive to work. This effect is not experienced by income support recipients in the private rental market, where rents are not income based.

As such, income based rents in public housing reduce the reward from work and create a disincentive for tenants to become self reliant through employment.

### Inconsistent levels of assistance between public housing and Commonwealth Rent Assistance

Tenants in private rental housing in receipt of Commonwealth Rent Assistance receive a lower effective subsidy from government than tenants in public housing. The *Australia's Future Tax System Review* estimated the average difference in subsidy between the two tenure types per household was \$3,380 per annum.

There are incentives for people to be in public housing. For example, there is a higher level of subsidy provided to public housing tenants. In addition, public tenants have more stable accommodation than private renters.

Consequently, demand for public housing is high and waiting lists are long. Public housing gives priority to those who can demonstrate low income and difficulty obtaining private rental accommodation.

This may result in prospective tenants on the waiting list being reluctant to improve their circumstances through undertaking paid employment. This can last for years as people wait for a public housing place.

### Review of Federation White Paper

The total state and territory government nominal expenditure for social housing was \$5.2 billion in 2012–13. This included approximately \$1 billion of Commonwealth funding provided to states and territories under the National Affordable Housing Specific Purpose Payment. In addition, in 2012–13, the Australian Government spent \$3.6 billion on Commonwealth Rent Assistance.

The Government's White Paper on the Reform of the Federation is being developed and will seek to clarify Commonwealth and States' roles and responsibilities. This could change the Commonwealth's role in housing significantly.

Key stakeholders raised the White Paper and its impact on housing policy. The Reference Group considers it should not pre-empt the outcomes of this review.

## Benefits of Work

There have been substantial social and economic changes in Australia in recent decades. The structure of the labour market has changed, with jobs increasingly requiring higher levels of education and skills. While many have adapted to these changes, there are other people who are missing out on the benefits of work.

The unemployment rate for August 2014 was 6.1 per cent. Of particular concern is the high rate of youth unemployment for the same month, at 13.6 per cent.

Employment generates benefits for individuals, their families and the broader community. The benefits of employment go beyond the clear financial rewards into other areas such as health, social connections and psychological wellbeing. These benefits are not only felt by the person working, but they also extend to other family members and the community.

Being unemployed or reliant on income support for a long period of time is particularly detrimental to individual and family incomes and wellbeing. The evidence shows that extended periods of unemployment increase the likelihood of future unemployment. Long term reliance on income support is associated with poor health, low self esteem and social isolation. It can also have intergenerational effects.

The OECD Employment Outlook 2014 highlights that lack of skills and the difficulty of re-entering the labour market are key concerns for people who are long term unemployed. The longer someone is reliant on income support, the more difficult it is to get off that support. As the time spent on income support increases, fewer individuals break their reliance on income support payments.

## Financial Benefits

Employment is the best means of achieving financial security through a person's working life and into retirement.

Employment provides financial security for the individual or household, allowing people to invest in long term assets such as housing and superannuation, leading to greater financial security into the future.

## Health Benefits

Engaging in suitable work has a positive influence on mental health for most people. This is also true for most people with a pre-existing mental health condition. This relates to the way people feel about being engaged in meaningful work, making a contribution to society, providing for their family, creating a time structure to days and weeks, and a sense of social connection.

The Australasian Faculty of Occupational and Environmental Medicine has published a Consensus Statement on the Health Benefits of Work. Bringing together a wide range of stakeholder signatories,



the statement acknowledges that work is in general good for health and wellbeing and that government, employers, unions and practitioners have a role to play in promoting the health benefits of work.

People in employment are more likely to report higher levels of overall wellbeing. Employment and psychological wellbeing have been found to be closely interlinked. Employment, when compared with joblessness, is associated with lower rates of mortality, better general and physical health and lower rates of medical consultation and hospital admission.

Conversely, there is also evidence that unemployment correlates with a higher likelihood of developing or exacerbating a mental health condition.

Supporting people to be able to remain in work and/or return to work following an episode of a mental health condition has been shown to improve their long term wellbeing.

### Employment as an element of the recovery process

Employment can be an important part of the recovery process for people with mental health conditions. A study by Orygen Youth Health contends that participating in work is an important step in the recovery process. For people recovering from a mental health condition, being able to secure a job and contribute in a workplace are important normalising milestones. Further, people with lived experience of mental health conditions recognize the importance of work to their mental health, ranking everyday achievements such as getting a job or completing education much more highly than their symptom recovery goals.

The nature of the work environment and appropriate support services are important factors in a successful work experience for people with mental health conditions.

Evidence shows that the health benefits of work are optimal when employment does not involve unreasonable work pressures and takes place in a healthy work environment.

### Intergenerational Benefits

Many of the benefits of employment are passed on from parents to children. Children who grow up in households where one or more people are employed have better outcomes in terms of social, emotional, physical development and learning.

By contrast, extended exposure to income support dependence is associated with poorer outcomes for children. Children living in households where parents are not working are more likely to not work in the future.

The Youth in Focus project found that 39 per cent of children from families that are heavily reliant on income support are themselves in receipt of income support by the age of 20. The majority of these young people are in receipt of Youth Allowance for unemployment rather than for study.

### Community Benefits

Increasing employment benefits the community and society, through increased participation, reduced income support reliance and increased revenue through taxes. Better employment outcomes in a community can result in heightened social outcomes. Employed adults serve as a positive role model for young people within a community.

Research has also found that disadvantaged communities are generally characterised by low levels of labour force participation. In contrast, flourishing communities generally have high employment levels.

## Activation Works

A 2012 OECD Report concluded that Australian labour market policies and institutions successfully activated job seekers. Job brokers, mutual obligation and a market based employment services system contributed to low levels of unemployment in Australia before, during and after the Global Financial Crisis.

Welfare to Work reforms are among the activation policies introduced in Australia. A study of these reforms found evidence that these reforms led to increasing employment of people on parenting payments. A similar evaluation found Welfare to Work reforms successfully increased workforce participation for people with a disability assessed with a capacity to work of 15 to 29 hours.

## Expectations and Attitudes

Requirements for people to participate in employment have not kept pace with changing social values and expectations in recent decades.

For example more women are working, including those with young children, and it is accepted that many people with disability do have the capacity to participate in the workforce. There is broad community acceptance that people who have the capacity to work should work where possible.

Some groups receiving payments e.g. those on the Disability Support Pension currently have limited or no requirements to participate in employment and tend not to access employment assistance. This can be a reflection of limitations on participation due to caring roles (for carers or parents of young children) or due to disability.

However, there is scope to improve employment and social outcomes for many people in these groups by reviewing their capacity, and encouraging and requiring greater participation in work or in planning or preparing for work, in line with that capacity.

## Meeting Future Economic and Social Challenges

The social support system needs to be responsive to the future economic and social challenges that Australia will face.

There have been major structural changes to the economy over recent decades that have had significant implications for the Australian labour market.

The microeconomic reforms that began in the mid 1980s and opened the Australian economy up to international competition, labour market deregulation, technological change and the mining boom, had a significant impact on the structure of the Australian economy and the structural composition of the labour market.

As this economic restructuring continues, the nature and availability of jobs across the country, and the skills required for these jobs, will change. At the same time, the demographic challenges of an ageing population will continue and the ratio of the working age population to the over 65 age group will decline.

## Changes in Industry Composition of Employment

In recent decades, the majority of employment growth has been in the Services Sector, which now accounts for almost 90 per cent of total employment within the economy. The Services Sector includes Retail Trade, Construction, Health Care and Social Services.

The Mining Sector's share of employment declined for most of the twentieth century before almost trebling in size (albeit from a small base) during the course of the recent mining investment boom. However, in 2014, the proportion of people directly employed by the mining industry still only constituted around 2 per cent of total employment in Australia.

The proportion of employment in the manufacturing and agricultural sectors has also declined substantially in recent decades. Manufacturing's share of total employment fell from around 26 per cent in 1958 to around 8 per cent in 2014. Similarly, agriculture's share of total employment fell from around 12 per cent in 1958 to around 3 per cent in 2014.

The labour markets of some geographic regions have been adversely affected by structural economic changes, particularly those heavily reliant on manufacturing, agriculture and some industries vulnerable to import competition and technological change.

It is important to note that the labour market will continue to adapt and change—existing industries will restructure and new industries will emerge.

## Changes in Skill Levels

The structural economic changes have also favoured, in the main, more highly skilled and educated workers over low skilled and uneducated workers. Australia as a whole has adapted well to the growing demand for more highly skilled and educated workers in the labour market, through increasing levels of education.

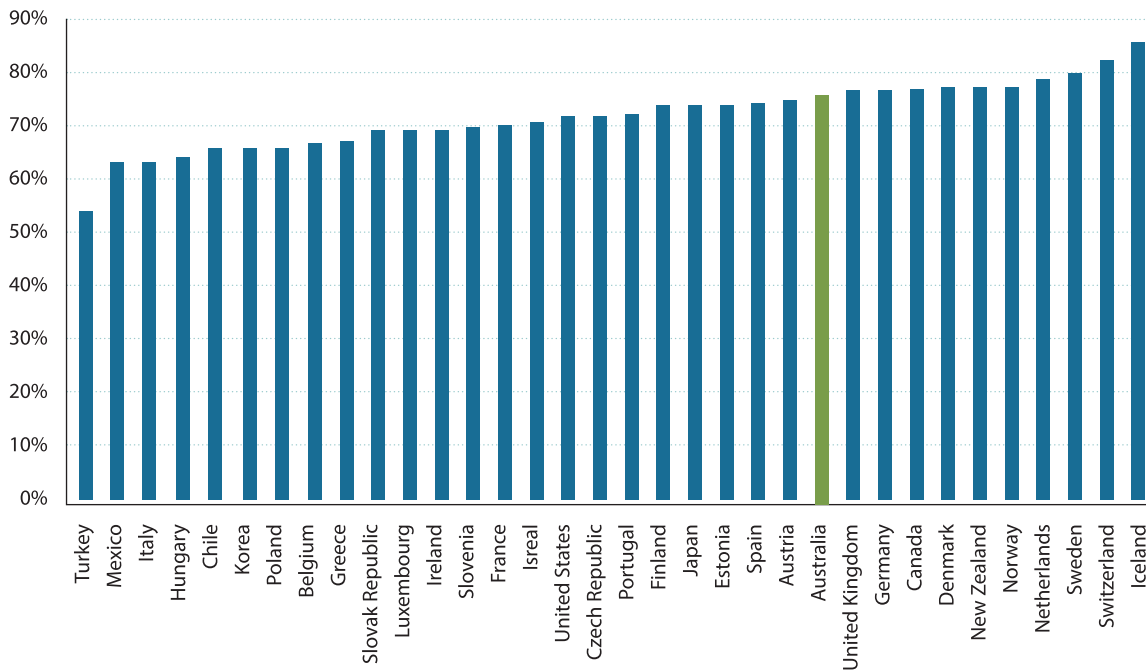
The relative reduction of low skilled jobs in the economy and the high unemployment rates associated with low educational qualifications make it even more important for people to undertake appropriate education and training to minimise the risk of becoming unemployed and dependent on income support.

## Changes in Labour Force Participation Rates

Over the last couple of decades, the working age participation rate has increased significantly, from 69 per cent in September 1984 to a peak of 77 per cent in November 2010. Since then, the participation rate has fallen slightly to currently stand at 76 per cent in September 2014. Participation rates include those employed, both full and part time, away from work and unemployed.

Australia compares fairly well against other OECD countries in terms of labour force participation rates, ranking 11th out of 34 countries.

Figure 4 – OECD Labour Force Participation Rates



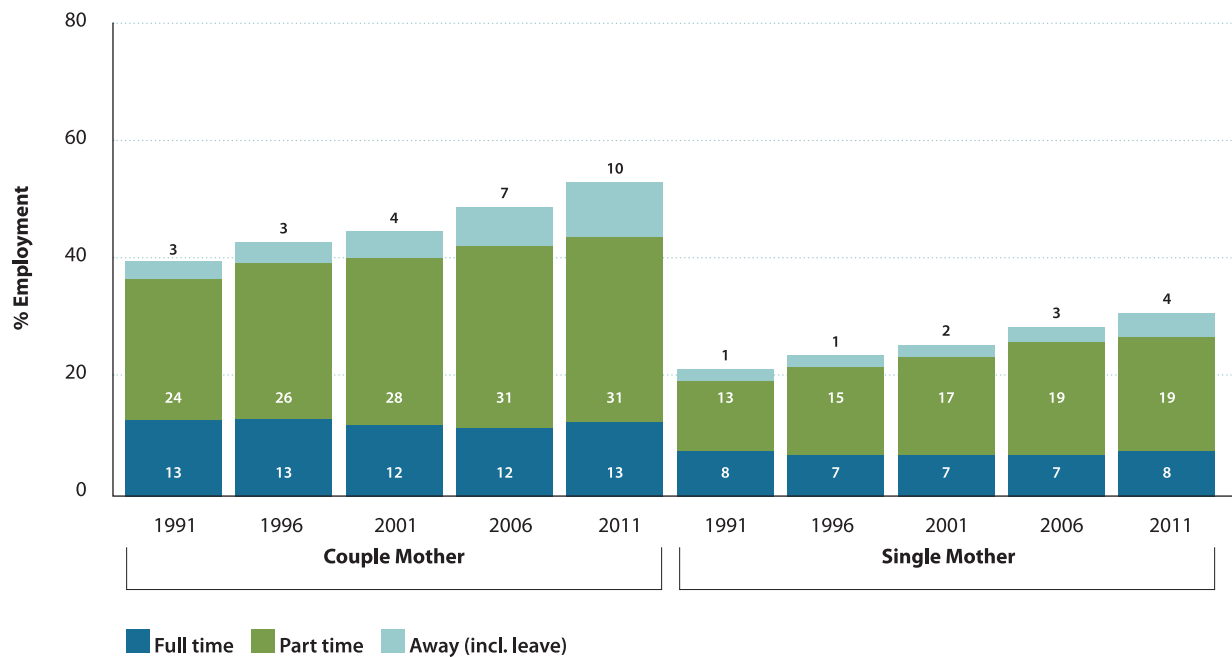
Source: OECD Statistics

## Women

The female working age participation rate has increased from 53 per cent in 1980 to 71 per cent in 2014. However, for women the nature of their participation is highly dependent on the presence of children.

Around half of all mothers with a youngest child under two years are working. The following Figures 5 and 6 show the employment rate of mothers when their youngest child is under two and when their youngest child is aged between three and five years.

Figure 5: Employment Levels of Mothers when Youngest Child is aged between zero and two



Source: Australian Bureau of Statistics (Census data)

For mothers, participation rates vary depending on the age of their youngest child and their partnership status. Between 1991 and 2011 the participation levels of both single and partnered mothers has increased.

As the age of the youngest child increases, the participation rate of single mothers becomes closer to that of partnered mothers.

Figure 6: Employment Levels of Mothers when Youngest Child is aged between three and five



Source: Australian Bureau of Statistics (Census data)

The trend of more Australian mothers entering the workforce is matched in other OECD countries. In 2011, the overall employment rate in Australia for mothers with a child under 15 years was 63.7 per cent compared with an OECD average of 65.2 per cent.

Australia is broadly comparable with other OECD countries across the age ranges, though for mothers with youngest children aged 3–5 years, the employment rate of Australian mothers is 60.2 per cent, behind the OECD average of 65.7 per cent.

OECD research has identified several key factors that influence women's decisions to work and their labour force participation. These are: higher levels of education; paid parental leave; available and suitable childcare; flexible work; and financial incentives (for example, tax transfer payments).

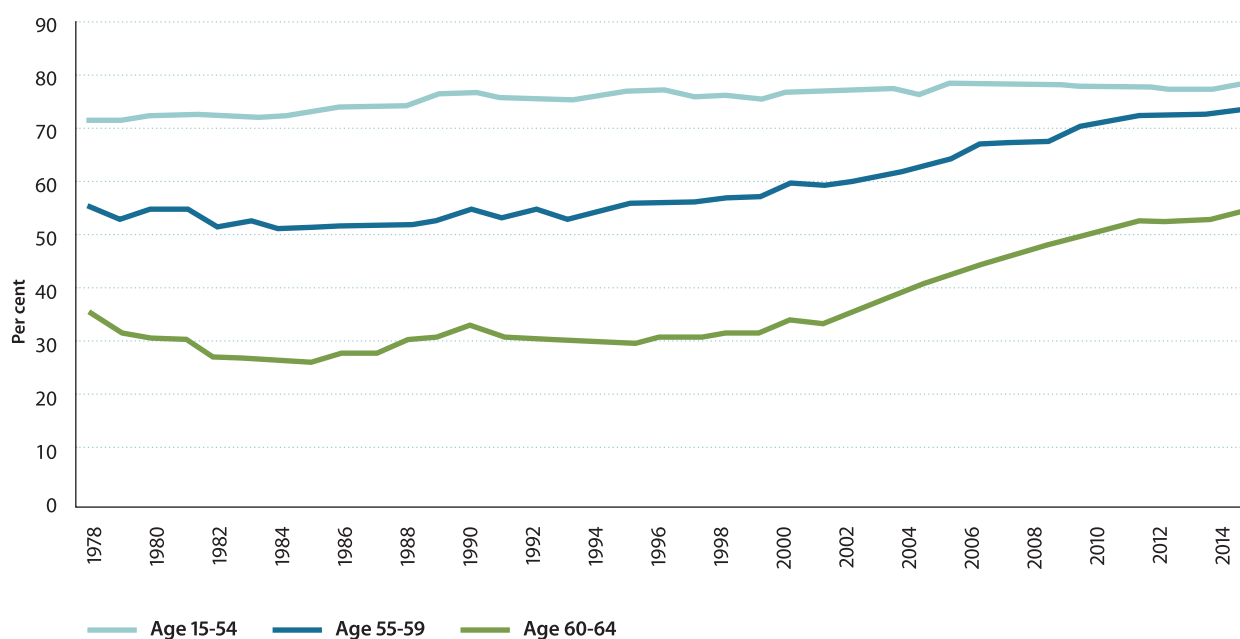
## Older Australians

There are high and growing participation rates for older Australians. The data shows that participation rates are trending upwards, in particular for older women. This reflects higher overall employment rates for women, increases in the Age Pension age, as well as changing social, cultural and institutional attitudes towards older workers.

Despite healthy growth, the participation rate for Australians aged 55 to 64 years (63 per cent) remains lower than for working age Australians as a whole (76 per cent). A large section of this group has voluntarily left the labour force or is not participating in work for other reasons. The proportion of mature age people receiving Newstart Allowance has remained fairly stable in the last three years, although the number of people has increased.

Mature aged people may be retiring early due to a lack of demand for older unskilled workers (or because they have skills not currently in demand), and the overall design of the income support/superannuation system including access to retirement benefits. However, the gap in participation rates between younger and older workers has been narrowing over time (see Figure 7).

Figure 7: Participation rates for Older Australians



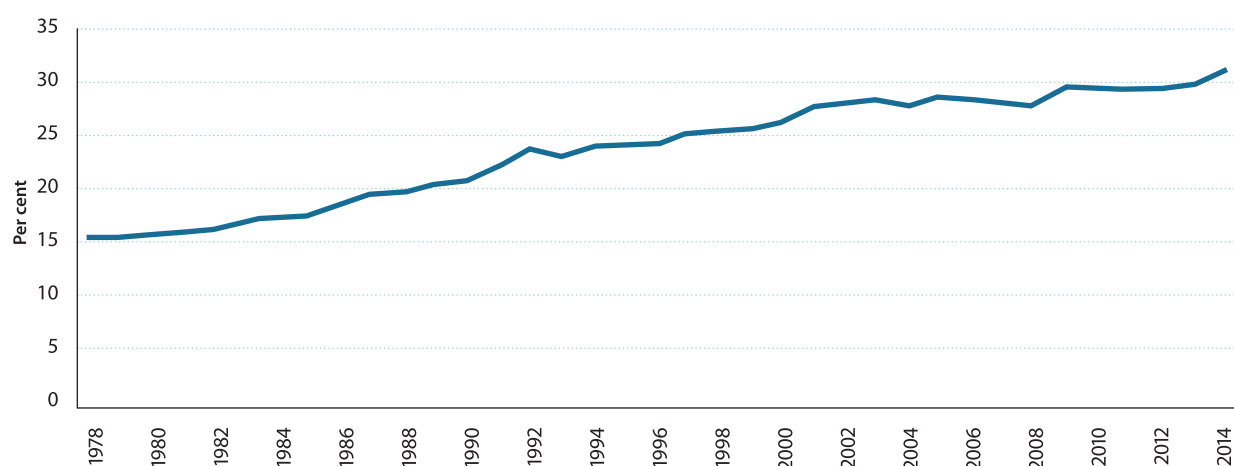
Source: Australian Bureau of Statistics (Cat 6202.0)

## Trends in Part time and Casual Work

Recent decades have seen a rapid increase in the number of part time workers. The number of people employed part time as a proportion of the total number of people employed has approximately doubled from 15 per cent in 1978 to 31 per cent in 2014. This is shown in the chart below.

This has been driven by an increase in the labour force participation rate of females (who are more likely to work part time, especially those caring for young children and where their participation rates increase as their children grow older) and an increase in part time employment by males.

Figure 8: Percentage of People Working Part Time



Source: Australian Bureau of Statistics (Cat 6202.0)

Between 1982 and 2011 the share of permanent employees decreased from around 70 per cent to just over 60 per cent, although there was a small increase back again between 2001 and 2011. The share of casual workers in employment doubled from under 10 per cent to around 20 per cent between 1982 and 2011, although most of these occurred prior to 2001.

## Entrepreneurship

A trend of entrepreneurship has emerged in the Australian labour market. The Australian Centre for Entrepreneurial Research used data from the Global Entrepreneurship Monitor (2011) to conclude that entrepreneurship was 'alive and well in Australia'. It observed that 10.5 per cent of the adult population was involved in setting up a new business or owning a newly founded business. This marks an increase of 2.7 percentage points in Australia's rate of entrepreneurial activity. As a result, in entrepreneurial activity Australia ranks second only to the United States.

The growth of entrepreneurship in Australia reflects a similar trend overseas. The OECD Entrepreneurship at a Glance Report of 2014 noted that Australia, along with Portugal, Sweden and the United Kingdom, have regained levels of business start ups that existed before the Global Financial Crisis and are displaying a positive upwards trend. Overall, the OECD concluded that barriers to entrepreneurship have progressively reduced over the past decade. As a source of innovation, growth and employment, entrepreneurship is positive for the Australian economy.

## Wanting to Work More Hours

The underemployment rate provides a measure of the number of employed workers aged 15 years and over who want, and are available for, more hours of work than they currently have. As of August 2014 the underemployment rate in Australia was 7.9 per cent.

Based on the Underemployed Workers Survey conducted by the Australian Bureau of Statistics in September 2013, just over a quarter (26 per cent) of all part time workers stated they would prefer to work more hours, compared with 24 per cent of part time workers who said they would prefer to work more hours in September 2011 and 2012.

## Underemployed

Of the 912,200 part time workers who would prefer more work hours, surveyed in the Underemployed Workers Survey (September 2013):

- 38 per cent were men and 62 per cent were women
- just over half (55 per cent) would prefer to work full time
- 90 per cent (817,200) were available for work with more hours, and more than half of these (53 per cent) were looking for more work hours.

## Labour Mobility

The Productivity Commission's April 2014 report, *Geographic Labour Mobility*, found that geographic labour mobility can contribute to economic efficiency and community wellbeing. The Productivity Commission heard concerns from some employers that the rate of mobility is inadequate to meet their labour needs.

Low rates of mobility may also be detrimental to people from disadvantaged areas. Research has found that people who remain in disadvantaged areas tend to have lower education levels and lower incomes than those who move away. The main reasons people do not move relate to factors such as family circumstances and costs of housing. The lack of affordable housing in areas with high jobs supply is a barrier to labour mobility.

## Current Job Vacancies

In August 2014, there were an estimated 145,800 job vacancies in Australia (Australian Bureau of Statistics Job Vacancies Survey). The number of job vacancies in the private sector was 133,400, while the number of job vacancies in the public sector was 12,400. Whilst many new jobs become available each month, there is a partial mismatch between the location of jobs and the job seekers.

Industries with comparatively high levels of vacancies include technical services, administration and retail. There are comparatively less vacancies in utilities, telecommunications and education.

## Future Employment Opportunities

The Department of Employment's *Employment Outlook to November 2018* projects total employment in Australia to increase by 838,100 (7.2 per cent) over the five years to November 2018. With this, total employment is projected to reach 12,442,700. The Employment Outlook projects the distribution of this growth to vary across industries, occupations, skill levels, states and territories.



Employment growth is projected in most industries, with considerable growth forecast over the next five years in health care and social assistance, education and training, and retail trade. Strong growth is also expected to take place in the professional, science and technical services, construction and accommodation, and support services industries. Meanwhile, the three industries projected to decline over the next five years are manufacturing, mining and agriculture, forestry and fishing.

The Employment Outlook also estimates future employment by skill level. While employment at all skill levels is projected to grow over the five years to November 2018, employment growth is projected to be strongest, in percentage terms, among the two highest skill levels. Skill Level 1 employment (Bachelor Degree or higher qualifications) is projected to grow by 10.3 per cent, while Skill Level 2 (Advanced Diploma or Diploma) is projected to grow by 8.6 per cent. Skill Level 4 (Certificate II or III) is projected to generate a large number of new jobs, although its growth rate of 7.4 per cent is only slightly above the rate of 7.2 per cent across all skill levels. All occupational groups are forecast to grow in the Employment Outlook. In particular, strong growth is projected to continue for professionals (10.5 per cent) and community and personal services workers (14.4 per cent). Lower levels of growth are forecast for labourers (1 per cent), machinery operators and drivers (3.3 per cent) and clerical and administrative workers (4.1 per cent).

Finally, employment growth in all state and territories is projected over the five years to November 2018. While an expected decline in mining investment will subdue growth in key mining areas, growth is nonetheless expected to remain comparatively strong in the Northern Territory (10.5 per cent), Western Australia (8.9 per cent) and Queensland (9.3 per cent). New South Wales (6.7 per cent) and Victoria (6.8 per cent) will grow considerably yet still record figures slightly below the national average. Growth is forecast to be more subdued in Tasmania (2.2 per cent), South Australia (4.6 per cent) and the ACT (4.7 per cent).

### Population Ageing and Changing Society

The Productivity Commission's 2013 inquiry *An Ageing Australia* observes Australia's population will both grow strongly and become older. This population growth and ageing will affect labour supply, economic output, infrastructure requirements and government budgets. It will have clear implications for Australia's social support system.

Australia's population is projected to rise to around 38 million by 2060. During this time, the number of those aged 75 or more years will rise by 4 million. While in 2012, there was roughly one person aged 100 years old for every 100 babies born, by 2060 this number will rise to about 25. A female born in 2012 will live for a projected 94 years while a male will live an expected 92 years.

Improvements in healthcare, antibiotics and medical research have contributed heavily to increases in life expectancy. Yet, inactive lifestyles mean more and more Australians are dying as a result of 'lifestyle' diseases caused by tobacco use, poor diets and the harmful use of alcohol. The World Health Organisation (WHO) estimates that these lifestyle diseases e.g. cardiovascular disease, diabetes and chronic lung diseases are responsible for 63 per cent of global deaths.

The Australian Institute of Family Studies has used ABS data to conclude the nuclear family consisting of a couple with children will by 2016 be overtaken by couple only households as the most common household type (2013). This shift reflects the ageing of the population and that couples are having less children and starting a family at an older age.

There has also been a rapid growth of mental health conditions in Australia. At present, mental health conditions are both the largest cause of disability in Australia and the fastest growing. There are around 3.2 million Australians experiencing mental health conditions. Rates of mental health conditions are consistently higher for young adults than older adults. The growth in mental health conditions has implications for communities, employment and healthcare.

The ageing of Australia's population and changing trends in society will present different challenges for the social support system. These include additional pressure on service systems, the need for different and diverse employment opportunities and changes to planning and infrastructure.

## Sustainability

### Social Sustainability

A future social support system needs broad community acceptance and should reflect community values and expectations.

Social values and expectations about work have changed in recent decades. There is broad community acceptance that people who have the capacity to work should work where possible.

Changing social norms, improvements in technology and more flexible workplaces mean that current mutual obligations and participation requirements may now be out of step with societal expectations. For example, more women are working, including those with young children. It is also generally accepted that many people with disability and mental health conditions have capacity to participate in the workforce to varying degrees.

### Fiscal and Economic Sustainability

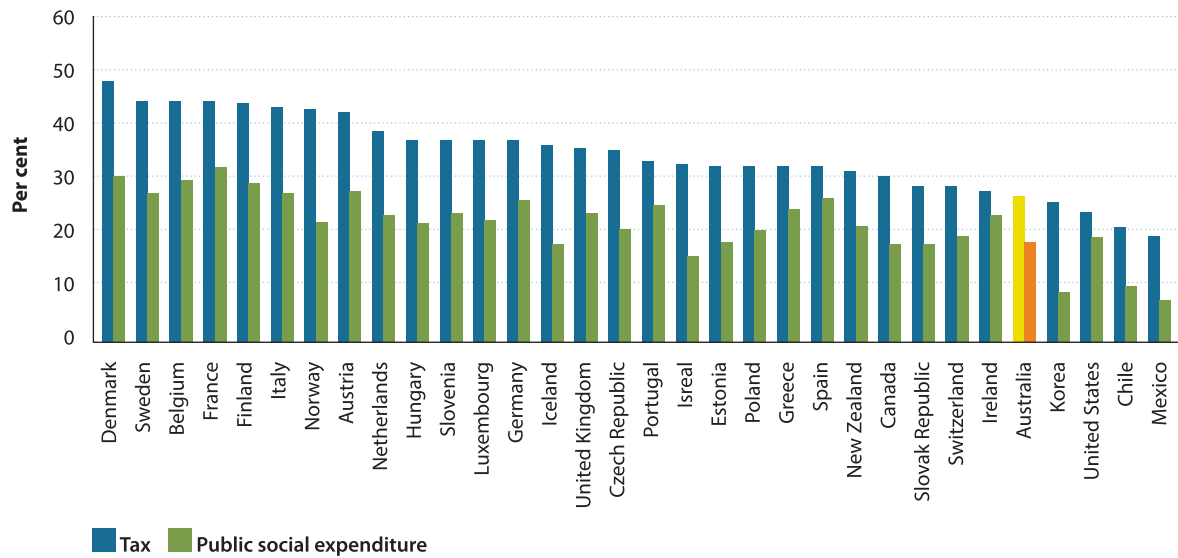
In 2012–13, the Australian Government provided more than \$110 billion in cash transfer payments and around \$2.2 billion for employment services. The estimated cost of administering payments in 2012–2013 was approximately \$3.0 billion.

Australia has kept the cost of its social support system below the costs of some other countries through its flat rate structures and its means tested, needs-based approach.

The ageing population will lead to substantial increases in expenditure, particularly on health, age related income support payments and aged care. The fiscal environment, uncertain world economic outlook and longer term challenges mean an important goal is ensuring the system is well targeted, fiscally sustainable and that it remains value for money is an important goal.

A social support system that helps builds the skills and capabilities of the workforce and supports increased participation will contribute to future economic growth.

Figure 9: Tax and social expenditure across OECD countries



Source: OECD, Statistics

Note: Chart excludes Japan and Turkey, as no public social expenditure was available for these countries for 2011

## Transitions

### Life Course Transitions

The success with which people make transitions during their life is a major determinant of their long term wellbeing. The current social support system does not have a coherent approach to identifying or tracking the significant transitions that can affect an individual during their life. This limits the capacity for the social support system to support successful transitions.

Many life events are predictable such as entering primary school, progressing to secondary school and leaving school. Positive transitions at these various milestones are important for later life outcomes.

Research by the Australian Institute of Family Studies found that when an event triggers change in a person's life, it is often the point at which that person makes contact with government support services including Medicare, Centrelink and Child Support.

## Work Transitions

All transitions can have an impact on employment outcomes whether in the short or longer term. The framework below identifies major transitions related to work across the life course.

Figure 10: Transitions throughout the Life Course

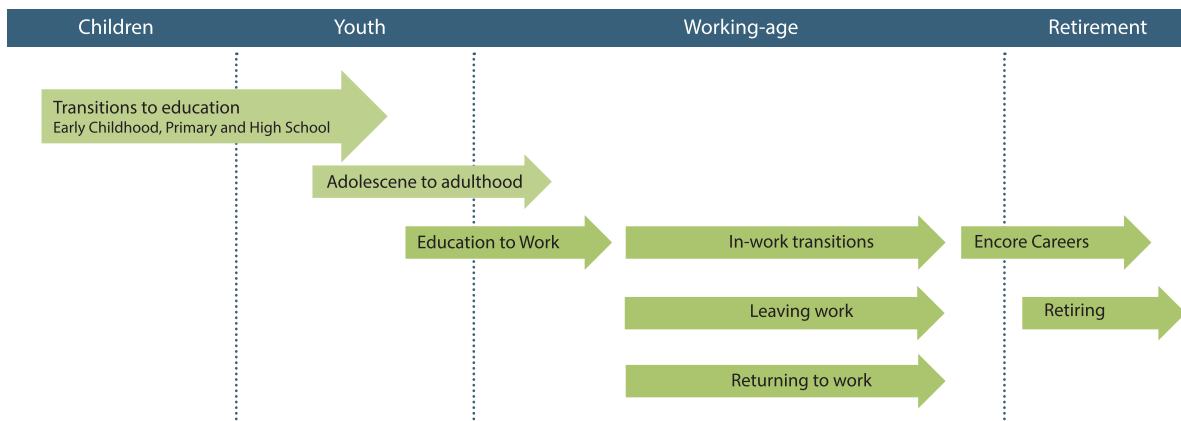


Figure 10 above shows the most common work related transitions. Early transitions (starting school and progressing through education) are not directly related to work but have a significant bearing on work experiences later in life.

The consultations highlighted the importance of positive transitions into education and between education and work. Some stakeholders pointed to the barriers that young people face making the transition into the workforce for the first time and that these barriers are varied and complex. It was also suggested that this transition is much more difficult to make today than in the past, primarily because of structural changes to the labour market and the lack of entry level jobs.

There are a number of reasons why an individual might leave and return to employment over the course of their working life. Many of these transitions will be voluntary and positive, for example leaving work to re skill or up skill, or to have a child. Other transitions may be sparked by less positive life events such as being made redundant, becoming homeless, or developing a disability, chronic illness or mental health condition.

Many individuals will experience short periods of unemployment. For the majority, short term periods out of work will be followed by a relatively smooth transition back into work. However, there is a small but significant group of people for whom unemployment becomes a more significant challenge, and who face multiple barriers when trying to make the transition back into work.

There is also a range of reasons why older Australians may face difficult work transitions later in their careers because their skills have become obsolete or because of reduced capacity to work. The process of retiring today is often experienced as a series of changes rather than a single event.

## Risk Factors

Whether or not a transition is a positive or negative experience depends on the existence of a range of risk factors. Certain risk factors place individuals more at risk of long term joblessness and disadvantage. These risk factors include: low levels of education or skills; homelessness; disability or illness; living in rural or remote areas; social isolation; caring responsibilities; and unstable or casual work

Gaining a better understanding of these risk factors will allow investment in early intervention and to reduce the risk of long term income support dependence.

## The Reform Agenda

Major reform is necessary and possible.

A number of countries around the world are experiencing similar challenges and have embarked on major reforms to their income and social support systems.

New Zealand has simplified its income support system to five main payments and targeted intensive support services to those most at risk of longer term income support reliance. The European Union has adopted a social investment approach to strengthen people's skills and capacities and support them to participate fully in employment and social life. The United Kingdom is introducing a 'universal credit' approach designed to simplify their system and improve work incentives.

The Reference Group considers that an integrated approach linking income support reform to reforms across the broader social support system is necessary. For that reason, there are four pillars of reform. The four pillars are:

- A simpler and sustainable income support system
- Strengthening individual and family capability
- Engaging with employers
- Building community capacity.



# Pillar One:

## Simpler and Sustainable Income Support System

A new architecture for the income support system is needed that is simpler, sustainable, coherent and clearly supports work. The new architecture would re focus the system towards employment. The Reference Group is proposing a new payment architecture that meets these objectives and has five main payments: a tiered Working Age Payment; a Supported Living Pension; a Child and Youth Payment; a Carer Payment; and the Age Pension.

The Working Age Payment will have three tiers to reflect differing needs and capacity to work. The Upper Tier will be for people with limited capacity to work. The Middle Tier will be for people with moderate capacity to work and parents with dependent children or dependent young people, under the age of 22. The Foundation Tier will be for people with full capacity to work.

The design of the new payment architecture will mean many people currently on Newstart Allowance will be better off in the new system.

The Reference Group recognises that payments need to keep pace with increased living costs and with changes in community living standards. It is recommending a twin tracked approach to adjusting payments, which includes an automatic six monthly cost of living adjustment and a review of whether income support payments reflect changes in community living standards at least every four years.

To smooth the transition from income support to employment, a Passport to Work will be a key feature of the new system. It will encourage work and address the fear of not being able to transition back to payments if work reduces or ends. It will also ensure that rewards for work are clear and understood.

In transitioning to a new system, the Reference Group is recommending that no one should have a reduction in their rate of payment.

The Reference Group also recognises the critical role of housing to employment, education, job search and health. It is concerned about the disincentives to work and inequities in the current housing assistance system. In the longer term, income based rents should be phased out in public housing and replaced with Commonwealth Rent Assistance.

This would be the most significant reform of the social support system ever undertaken. There should be a staged implementation to the new income support system, which is integrated with the development of the new IT system. The Supported Living Pension and tiered Working Age Payment should be rolled out concurrently.

The overall aim of the social support system is to improve social and employment outcomes. The income support system cannot do this alone. This is why the Reference Group is recommending an integrated approach that links reform of the income support system to measures that strengthen individual and family capability (Pillar Two), engage with employers (Pillar Three) and build community capacity (Pillar Four).

## Introduction

Australia's income support system has become complex and unwieldy. It does not reflect changes to the labour market or contemporary community values and expectations, in particular people's strong desire to work.

As discussed in Case for Reform, there are numerous problems with the current social support system that need to be addressed, including that many people are on payments that were not designed with their needs in mind. The income support system could do more to support employment. The current system does not sufficiently connect people to employment and includes unclear and inconsistent incentives to work.

"The current system of income support is complex and unwieldy for the people who use it and fails to respond to the complexity of people's lives"—submission to Interim Report

"The current system is too complicated and there is not enough support to help me find work"—Income Support Recipient

## Employment Focus

During the consultations, income support recipients stressed they wanted to work so they could become self reliant and improve their lives and financial circumstances.

Work is the best route to achieving a decent standard of living for most people. The current system lacks this strong employment focus. There are still too many people who want to work, who are not working and who remain on income support payments for too long.

The new income support system should have an employment focus that encourages people to work to their capacity. The proposed new income support architecture and integrated social support system are oriented around getting people into work. The aim of the proposed reforms is to design incentives, obligations and support that achieve this employment focus.

## Complexity

The new income support system should be simpler, easier to access and understand, and be delivered efficiently and effectively.

The current income support system has become increasingly complex over time. There are around 20 income support payments and 55 supplementary payments. This complexity can make it difficult for people to understand how income support interacts with paid employment and the tax system. Many people do not have a clear view of the benefits of work.



This complexity can also result in inequities, with people in similar circumstances receiving significantly different levels of government support and facing different expectations of work as an obligation of receiving support.

Inconsistent rules and multiple payments for dependent children and young people create unnecessary complexity and can lead to poor levels of support for families with young people transitioning out of school.

There are too many supplementary payments, some of which no longer have a strong rationale or are received by almost all income support recipients and should be rolled into the payments.

## Adequacy

In the new system, people should receive a payment that allows them to have an adequate standard of living.

The new payment architecture is designed to ensure people receive payments that reflect differing needs, capacity to work and varying ability to supplement income support with earnings.

During the consultations, many stakeholders raised concerns about the adequacy of allowances. In particular, stakeholders pointed to the increasing gap between pensions and allowances. Concerns were raised that payments may be too low to support income support recipients to fulfil their desire to find work and to address the needs of those who receive an allowance, but who due to only having a partial capacity to work, may never be able to work full time.

There is no simple formula for determining an appropriate level of assistance to achieve basic adequacy.

The 2009 Harmer Review of Pensions explored a range of measures to understand whether payment rates were more or less effective in delivering a basic acceptable standard of living to recipients. This included considering: budget standards research (which involves creating an itemised household budget); income poverty measures; indicators of financial stress or hardship; subjective wellbeing measures as well as a range of earnings and income measures.

The Harmer Review of Pensions concluded that no single measure or benchmark could be used to determine whether or not the pension was adequate.

During the Reference Group's consultations, stakeholders put forward a range of ideas for how payments should be set and adjusted over time. These included:

- setting up a Standing Parliamentary Committee on Adequacy or an Independent Commission or Tribunal to determine and adjust rates in line with community living standards
- adjusting payments in line with changes to the Consumer Price Index (or an alternative cost of living measure, such as Pensioner Beneficiary Living Cost Index (PBLCI)) and benchmarked to community living standards through a link to wages
- benchmarking payments to Male Total Average Weekly Earnings (MTAWE) or Average Total Weekly Earnings (ATWE) or median earnings or the national Minimum Wage
- developing a common indexation formula (to apply to both allowances and pensions) that is informed by cost of living measures, an earnings measure and community expectations of living standards

- undertaking detailed modelling to determine a level of base payment and indexation arrangements.

Achieving adequacy does not only relate to the main payment rates. A number of other factors are important influences on whether a person is able to achieve an adequate standard of living:

- whether a person lives alone or with others, including as a member of a couple
- the payment rates for children of different ages
- eligibility for and levels of Commonwealth Rent Assistance and/or other supplements
- indexation arrangements to maintain adequacy over time.

The Interim Report highlighted a number of groups who may be faring particularly badly in the current income support system. These included people with a partial capacity to work, including people with disability and income support recipients renting privately.

Through the design of the new income support payments, the Reference Group has sought to improve payment adequacy for groups with limited capacity to work who, as a result, are more likely to stay on payments for a longer duration.

The Reference Group has also considered the balance between adequacy, incentives to work and the affordability of the system in the design of the new income support system.

Fundamentally, reforms to re focus the system towards employment are seen by the Reference Group as the best way of improving people's current circumstances and financial prospects. This means ensuring that the primary focus of the income support system is to support people to move towards employment and self reliance where possible.

## Means Testing and Marginal Tax Rates

In the new system, means testing should be fairer, more coherent and clearer as to how earnings from work will affect payments, supplements and concessions.

The benefit of means testing in the income support system is that it targets more support to those in need while reducing the net cost to government. This is one of the key strengths of the Australian system of income support. However, the withdrawal of income support through means testing inevitably reduces the net gain from work.

Income test free areas and taper rates vary widely between different payments which results in different rewards from working (see definitions below). These inconsistencies can cause significant disruption to people moving between different payments. Sometimes people can be subject to a number of income tests at the same time, causing confusion and reducing incentives for people to become self reliant.

## Means Testing

### Income tests

Income tests are usually designed with a 'free area'. This is the amount of income someone can have before the income test applies. The free area recognises that people need to use their wages to cover the costs of working before they can spend earnings on other needs. For unearned income, a free area allows a recipient to hold modest savings without affecting their payments (unless they have other income).

Income tests also have a 'taper rate'. This is the amount by which payments reduce for every extra dollar of income received in excess of the free area. The taper rate is a compromise between the goal of reducing government assistance and recognising greater self reliance on one hand, while on the other hand maintaining a reward for working. When income falls, the taper rate dictates what proportion of the income will be replaced by income support or family payments.

The 'cut out' is the income at which payments are reduced to zero when people cease to receive income support.

Income banking arrangements allow people to save (or 'bank') credits for periods when they have little or no earnings to offset earnings at a later date.

### Assets Tests

Assets tests are intended to ensure people with high assets draw on their savings to meet their current needs. Assets tests usually have a threshold and a taper rate.

Non homeowners have a higher assets test threshold than homeowners, but the principal home is exempt from the assets test.

The assets test limit is set at the value of the assets test threshold for Newstart Allowance and Parenting Payment (Single) (i.e. there is no taper) resulting in a 'sudden death' limit whereby recipients lose their payment entirely if they have assets above the threshold.

The complexity created by means testing makes some people reluctant to take up work or increase hours out of concern they will lose more than they gain.

The combined effect of income test withdrawals for income support payments and personal income tax obligations is often referred to as the 'effective marginal tax rate'. As people in receipt of government benefits earn additional income, they not only pay tax on that additional income, but also experience a withdrawal of benefits at the same time.

For example, the Productivity Commission inquiry into Childcare and Early Childhood Learning has identified that currently secondary income earners in couple families and single parent families can face significant disincentives to increase hours of work because of the cumulative withdrawal of childcare payments, Family Tax Benefits and the Parenting Payment.

The current system has inconsistent definitions of income and periods over which income is assessed, which is confusing for people in the income support system and is costly to administer.

## System Coherence

A coherent system is one that is logical and consistent in its design.

In the new system, it will be important to achieve coherence, and maintain it over time.

Over a long period of time, automatic payment indexation, changing priorities and ad hoc policy responses have led to an income support system that is increasingly lacking in coherence and creating inequitable outcomes.

Some factors that have led to the coherence of the income support system deteriorating over time are:

- differing indexation arrangements of allowances and pensions
- tightening of eligibility for certain payments resulting in people with limited capacity to work moving onto Newstart Allowance
- changes to the relative difference between payments for singles and couples occurring in pensions but not in allowances
- the complexity of the payments system.

Pensions are currently indexed by the higher of the Consumer Price Index (CPI) and the Pensioner and Beneficiary Living Cost Index (PBLCI) to maintain their real value. They are then benchmarked against Male Total Average Weekly Earnings (MTAWE) to seek to ensure they remain linked to community living standards. By contrast, allowances are only indexed to the CPI.

As a result, pensions have grown more quickly than allowances, leading to the gap between pension payments and allowances increasing over time. Different rates of payment for people often in very similar circumstances have led to questions about both the differences in the payments and the justification for the lower rates for allowances.

The growing gap between pensions and allowances has also created an incentive for people to seek eligibility for pensions. Pensions carry lower expectations and obligations for workforce participation compared with allowances and there is limited encouragement to build people's capacity for self reliance through employment.

The characteristics of people receiving Newstart Allowance have changed over the past decade due to policy changes. There has been an increase in the number of people with little or no capacity to work full time receiving the payment. These policy changes together with fluctuating economic conditions have increased the average duration of people on Newstart Allowance.

The current system does not assist people with disability as effectively as it should. The income support system should better differentiate between permanent and temporary incapacity to work and provide greater support to those who may only have a partial capacity to work. The system should also provide better support for the needs and aspirations of people with mental health conditions.

The relative difference between payments for singles and couples is not the same for pensions as it is for allowances. As a result, single people receiving allowances are proportionately worse off than single pensioners, relative to their coupled counterparts.

The Pensions Review and subsequent reforms recognised that the relativity was too low for single pensioners compared with couple pensioners, but reforms did not include changing the ratio for people on allowances. However, achieving coherence does not mean all things being the same across payments. Coherence means being logical and consistent in the design of the system.

## Housing Assistance

Housing assistance should be recognised in the new system as a fundamental component of securing social and employment outcomes.

Housing is essential to support employment, education, job search activation and health. During the consultation process, stakeholders reiterated the central role housing plays in improving employment and social outcomes for income support recipients.

A shortage of housing supply is driving up rents and making housing increasingly unaffordable for people on low incomes and on income support. Housing is discussed in greater detail in Pillar Two.

Numerous organisations also expressed concern about the adequacy of Commonwealth Rent Assistance, which has not kept pace with the growth in rents paid by income support recipients.

- The Reference Group has identified the following concerns with current housing assistance:
- The level of Commonwealth Rent Assistance has fallen behind growth in rents leaving income support recipients to cover more of the costs of rent from their income support payments.
- Income based rents in public housing can be a major disincentive to work or increase hours. As people earn more money in public housing, they lose income support and pay more rent.
- People in similar financial circumstances receive markedly different levels of support from government. Tenants in private rental receive less of a subsidy from Government than public housing tenants.

People on public housing waiting lists fear working will jeopardise their claim for a public housing tenancy.

Until housing supply is addressed, the housing assistance provided by Government will always be playing catch up. However, the Reference Group considers that there are still improvements that can and need to be made to housing assistance to ensure it is better targeted and improves incentives to work.

Given that the availability and affordability of housing that is close to jobs and services is important for economic participation, labour mobility and family wellbeing, the Reference Group sees reform of Commonwealth Rent Assistance and the wider housing system as a vital piece of the overall reform agenda.

## A New Payment Architecture

In the new system, a major redesign of the payment architecture will be the centrepiece of reform.

The consultations on the Interim Report reinforced the need to tackle the complexity of the system, improve adequacy and incentives to work and achieve a more coherent system in the future.

## An Integrated System

The overall aim of the social support system is to improve social and employment outcomes. The income support system cannot do this alone. Income support payments, together with supplements, participation requirements and support services are all important in achieving this goal.

This is why the Reference Group is recommending an integrated approach, which links reform of the income support system to measures that strengthen individual and family capability (Pillar Two), engage with employers (Pillar Three) and build community capacity (Pillar Four).

## Design Objectives

The new architecture for the income support system has been informed by the following design objectives:

- The number of payments should be reduced but a balance needs to be struck between a simpler system and one that reflects complex and diverse needs.
- The primary payments should differentiate between people who are expected to work now or in the future and those who are not able to work.
- Flexibility should be retained to enable varying rates to be set within payments to reflect circumstances and capacity to work.
- Incentives to move between payments should be minimised.
- Overall, the new payment structure in the income support system should support pathways into employment and smooth transitions throughout life.

## Five Primary Payments

To achieve these objectives, the Reference Group is recommending a major redesign of payments. The new income support system should have five primary payments:

1. Working Age Payment—for adults who are expected to work now or in the future, with three tiers to reflect the varying capacity of individuals to work
2. Supported Living Pension—for adults who are permanently and severely restricted in their capacity to work
3. Child and Youth Payment—for parents of dependent children and dependent young people under the age of 22
4. Carer Payment—for adults caring for someone with significant disability and restricted in their capacity to engage in the labour market because of the caring role
5. Age Pension—for people over the Age Pension age who meet eligibility conditions.

The key to a simpler architecture is fewer primary payment types with varying rates within the primary payments, which better reflect different circumstances.

## International Experience

A number of other countries have recently simplified their income support systems.

In the United Kingdom, the Universal Credit is replacing six means tested benefits and tax credits, but is still composed of eight “elements”, which are: a standard allowance; a child element; a disabled child addition; a housing costs element; a limited capability for work element; a limited capability for work related activity element; a carer element; and a childcare costs element.

The New Zealand Government has introduced a five payment model, which replaced 11 main benefits. New Zealand’s five payments are: Job Seeker Support; Single Parent Support; Supported Living Payment; Young Parents Payment; and Youth Payment.

While it is possible to simplify the income support system, it still needs to reflect an individual’s diversity of needs, circumstances and capacity to work.

## Previous Reviews

When the Henry Review considered the income support system, it was similarly concerned that current policy settings did not adequately reflect changing employment patterns and changes in the composition of the working age population.

The Henry Review recommended restructuring income support into three categories—a pension category; a participation category; and a student category—arguing this would more appropriately balance payment adequacy and incentives to work and study for people in different circumstances.

The Henry Review drew on two main principles to inform the design of the income support categories:

- Income support payment categories should be limited in number and reflect current social expectations about the responsibilities that individuals in different circumstances have to look for work.
- Differences in the treatment of individuals in similar circumstances should be limited to minimise disincentives to work. This means minor changes in personal or family circumstances should not lead to major changes in payment conditions.

These Henry Review principles are sound and are reflected in the proposed five payment system recommended in this report. However, the Reference Group considers a three payment approach would not fully account for the different needs and capacities to work that people have now and in the future.

## Payments Reflecting Need and Capacity to Work

The Reference Group considers a five payment model is needed to support people with different needs, circumstances and capacities to work effectively over time.

A number of stakeholders suggested simplifying the payment system with a single base payment for people of working age, including all those with disability. This single base payment would be based on an assumption of a person’s current financial needs and not include consideration of capacity to work, now or in the future.

A single payment system does not recognise the varying capacities of individuals to work.

People receiving income support are a very diverse group. There are some people who, because of severe disability, are not expected to work and as a result are likely to spend long periods of time on income support with no potential to supplement this support with earnings. This group will receive the Supported Living Pension.

For other people receiving income support, there is an expectation of work. A payment is needed that reflects the expectation that now or in the future people will be capable of some level of workforce participation. However, within this group, there are varying needs and capacities to work. Different tiers and rates are needed to reflect this diversity. These groups will receive the tiered Working Age Payment.

The Child and Youth Payment will recognise the costs of dependent children and young people. This payment will increase with the age of the child to better reflect the costs associated with raising children and young people.

The Interim Report proposed a four payment model, which included carers under a tiered Working Age Payment.

However, the Reference Group is now recommending that a separate Carer Payment be retained in the new payments system to reflect the specific circumstances faced by carers.

In short, the five payment model recognises different support needs and better reflects individual capacity to work, as well as community expectations about work.

## Tiered Working Age Payment

In the new system, a tiered Working Age Payment will be the primary payment for people of working age.

This will reduce complexity and confusion for recipients and provide a clearer and more consistent approach to entitlements.

The Working Age Payment will be the payment for working age adults who are expected to work now or in the future. It will be a means tested payment for people 22 and over (the proposed age of independence for income support payments) to Age Pension age.

The Reference Group considers that if recipients of the new Working Age Payment work to their capacity, then the combined income they receive from income support and work should take them to at least the pension rate.

## Three Tiers

Within the Working Age Payment, there will be three tiers reflecting differing capacities to work and parental responsibilities:

- an Upper Tier
- a Middle Tier
- a Foundation Tier.

These tiers will have different rates, which reflect:

- that people may not have the capacity to work and earn enough to become fully self reliant for extended periods of time



- that people with dependent children need to provide an environment suitable for their upbringing.

Nobody moving from the old system to the new system should have a reduction in their rate of payment.

### The Upper Tier

The Working Age Payment is designed for people who have the capacity to work now or in the future. It will be the payment best placed to support people to plan for work, build capacity and move into work within their capacity when they are able.

The Upper Tier will be for people with disability with a limited capacity to work because of disability and therefore are more likely to stay on payments for a longer duration. This tier will be for people with a disability who have an assessed capacity to work of between eight to 14 hours per week. The upper tier will also be available to people with disability that severely, but not permanently, limits their work capacity (to less than 8 hours).

Participation requirements within the Upper tier will reflect that people either have capacity to undertake some part time work or have very limited capacity to work in the short term but can be supported to build their capacity for some work in the future.

Support services would be available to build capability and provide pathways to education and jobs. These are outlined in the other pillars.

### The Middle Tier

The Middle Tier will be for people with moderate limitations on their capacity to work and/or people with dependent children. Conditions of eligibility will limit this tier to:

- people with disability with an assessed capacity to work of between 15 and 29 hours per week
- people with dependent children or dependent young people under the age of 22.

Parents and guardians of dependent children would receive the Middle Tier of the Working Age Payment. This reflects that dependent children increase the financial needs of a household. A suitable environment for children to live brings additional costs compared with living without children.

(For further discussion of total income support packages for parents caring for children, see Child and Youth Payment and references to childcare support below.)

Participation requirements should reflect that people with disability in this tier have capacity to work from 15 to 29 hours a week. The participation requirements of parents or guardians of dependent children will vary according to the age of the child.

Where both parents in a family are not in work, both will have a requirement to seek work. Once one parent gains work, the other parent will have their participation requirements reassessed based on the other parent's work commitments and the age of the children.

### The Foundation Tier

The Foundation Tier will be for people with full capacity to work and/or to study.

Participation requirements should reflect that people have full capacity to work or study.

## Across the tiers

For each tier, there should be single person rates and a partnered rate with the single rates more than the partnered rate (i.e. more than half the rate to a couple combined) to reflect that single people do not have access to the economies of scale available to couples living together.

People need access to services that either help them to look for work or support them to build their capacity to work and address barriers to employment. Parents also need childcare and other services to be available to ensure they are able to work to their capacity.

## Supported Living Pension

In the new system, the Supported Living Pension will be for people who are permanently and severely restricted in their capacity to work.

For some individuals, the impact of a profound disability means they would be very unlikely to sustain employment in the open labour market. The Reference Group considers that the new system should retain a payment specifically for this group.

Defining 'permanence' in the new system is important. The definition of 'permanence' in the new system should relate to how long an individual is limited in their capacity to work, not the permanence of the impairment itself. An individual may have a severe and permanent impairment but this may not lead to permanent limitations on their capacity to work.

Some disabilities, such as intellectual disabilities and many degenerative diseases, are lifelong disabilities. By comparison, there are conditions which may improve over time and respond to rehabilitation. These include some of the most common sources of disability of current Disability Support Pension recipients, such as psychological/psychiatric conditions (32 per cent) and musculoskeletal/ connective tissue (25 per cent).

The Productivity Commission identified in its Disability Care and Support inquiry that the 'two year' definition of permanence used in the current Disability Support Pension was "a poor guide to the likelihood of highly persistent disability." The Commission suggested that five years could be more appropriate. The Interim Report also noted that the two year definition of 'permanence' was outmoded, given modern advances in medical treatment and improvements in services for people with disability.

The Reference Group has considered the work of the Productivity Commission and other evidence and suggests that five years is an appropriate timeframe.

The basic conditions of eligibility for the Supported Living Pension will be that people need to be aged between 22 and Age Pension age, and:

- have a physical, intellectual or psychiatric impairment assessed at 20 points or more under a single impairment table, or 30 points or more under multiple impairment tables, and
- have, as a result of impairment, an assessed work capacity in the open labour market at award wages of less than eight hours a week, and
- have their condition fully diagnosed, treated and stabilised, and
- be permanently restricted in their capacity to work, defined as an expectation that this will be the case for at least another five years.

The impairment tables referred to above are the current impairment tables used to assess how a person's impairment affects their ability to work for the purposes of assessing eligibility for the Disability Support Pension.

There will be no participation requirements on people in receipt of Supported Living Pension. However, if people receiving the payment wish to work, supports may be available to assist them.

Parents of dependent children or young people under the age of 22 who require significant additional care should receive a Child and Youth Payment and Carer and Disability supplement where eligible.

Individuals who are being assessed for their eligibility for this payment should be on the tier of the Working Age Payment that reflects their capacity to work, which will generally be the upper tier.

Nobody moving from the old system to the new system should have a reduction in their rate of payment.

## Child and Youth Payment

In the new system, the Child and Youth Payment will be a means tested payment for people with dependent children and dependent young people under the age of 22.

The wellbeing and longer term outcomes for children are important considerations when determining income support packages for parents. In the new income support system, people with dependent children and dependent young people under the age of 22 will receive support through access to the Working Age Payment (Middle Tier) and a new Child and Youth Payment.

As outlined in Case for Reform, the current income support system as it relates to children and young people has a number of problems:

- There are multiple payments available with different eligibility requirements and different means testing.
- Current rates of family payments do not reflect the increasing costs of children as they grow up.
- There is a lack of coherence in how income support packages for parents interact with childcare support.

## A Simpler Structure for Family Payments

In the new system, the Child and Youth Payment will be a single, means tested payment that recognises the costs of dependent children and young people and this payment would increase with the age of children at defined life transition points. This would simplify payments to families for their children and better reflect the costs of raising children.

The Child and Youth Payment will be:

- paid to parents or guardians of dependent children and dependent young people under the age of 22
- paid per child and increasing with age of the child

- conditional upon the child or young person having up to date immunisations and being in school, education, or training, where they have the capacity to do so, and
- designed to improve work incentives (for example removing double income tests on parents).

This would also clarify the expectation that parents who have the means to do so will support their children through school and the transition to independence.

For children and young people with disability, additional support may be available through the National Disability Insurance Scheme.

Nobody moving from the old system to the new system would have a reduction in their rate of payment.

## Costs of Children

Research indicates that the costs of children increase as they get older. This reflects older children's food consumption, clothing needs, the cost of other school related items and increasing social needs.

The costs of children increase markedly at the following points in the lifecycle: starting primary school, starting secondary school and entering the final two years of secondary school. The new Child and Youth Payment will better reflect this and be higher for older children than for younger children.

Payments for low income families with children and young people should support children to finish their education and transition to the workforce. There should also be recognition in the new system that children living across more than one household have higher combined costs.

## Income Support Packages for Parents

The development of the new Child and Youth Payment should involve establishing appropriate payment rates for income support recipients with children.

The process of determining payment rates should consider the rates paid to single parents compared with the rates paid to couples with children, and should consider how much rates should change as children get older but remain dependent on their parents for housing and other support.

Family Tax Benefit part B would be built into the Middle Tier of the Working Age Payment for parents to ensure it is received in a timely way. Other current payments should be rolled into the new Child and Youth Payment.

In addition to the new Child+ and Youth Payment, the new system should include supplements for the specific extra costs of children. This is discussed in more detail under Supplements.

## Childcare

The costs and quality of childcare can be significant factors in parents' choices to participate in work. Childcare costs are dealt with through the childcare system, not the income support system.

The Productivity Commission has undertaken an inquiry into Childcare and Early Childhood Learning. The Productivity Commission looked into payments to help with the costs of childcare. In its draft report, it suggested the Australian Government combine the Child Care Rebate, Child Care

Benefit and the Jobs Education and Training Child Care Fee Assistance funding streams to support a single child based subsidy.

The Productivity Commission suggested calling this payment the Early Care and Learning Subsidy and that it should be available for children attending all mainstream approved Early Childhood Education and Care services, whether they are centre based or home based.

The Reference Group supports this suggestion and the importance of adequate childcare support and good quality childcare and early childhood education to achieving social and employment outcomes and the need for design of childcare support to integrate well with income support and the child payment.

The Final Report of the inquiry into Childcare and Early Childhood Learning was given to government on 31 October 2014.

## Age of Independence

In the new system there should be a consistent minimum age at which a young person should be able to access income support in their own right.

In providing financial support for people unable to support themselves, the payment system will provide assistance to parents of dependent children and dependent young people and to the individual when they are independent of their parents.

Children and young people are expected to be engaged in education and so are not expected to support themselves through work below a certain age.

Below a defined age, parents receive a payment to reflect the costs of raising children. The payment reflects the general costs of raising children and does not reflect the particular characteristics of the child.

In setting the age of independence, the key determining factor is the extent to which families should provide financial support to young people while they complete their education and transition into work. The Reference Group considers the age of independence for young people is 22.

This aligns with the age of independence rule for the current Youth Allowance.

The number of young people living at home falls below 50 per cent between the ages of 21 and 22. Analysis of 2011 Household Income and Labour Dynamics in Australia (HILDA) data shows that the number of young people living at home with parents or guardians is 55 per cent at the age of 21 and 40 per cent at age 22.

The age at which people leave home has been increasing over time. In 2001, the equivalent figures were 47 per cent of people living at home at the age of 21 and 33 per cent at the age of 22.

This is consistent with other data which shows that young people are increasingly relying on family support and living at home longer with parents to support them, particularly during post school study.

Income support will still be available to young people under 22 where it has been determined they are independent. For example if they are parents or unable to live at home.

## Carer Payment

In the new system, there should be a separate means tested Carer Payment.

In the Interim Report, the Reference Group suggested carers should receive a Working Age Payment.

During the consultation process, the Reference Group heard from a range of carer representatives and carers themselves. It is clear that a separate payment for carers (the Carer Payment) and limited requirements are more appropriate than the new Working Age Payment.

Some carers do combine paid work with their caring role, but many are unable to do this because of the intensity of their caring role, or they are unable to find a job flexible enough to allow them to continue caring, or because of lack of adequate replacement care.

Extended periods out of the workforce, including for caring, can lead to long term income support dependence. Internal DSS research on Carer Payment recipients has shown that:

- Around 78.6 per cent of carers who exited from Carer Payment (before Age Pension age) in 2011 received further income support, such as Newstart Allowance, at some stage prior to March 2014.
- Young people are more likely to receive income support at some stage after exiting Carer Payment. 82.6 per cent of those aged 20–24, when they started on Carer Payment, received income support sometime after they exited Carer Payment, compared to 76.0 per cent of those aged 45–54 when they started on Carer Payment.
- Carers with earnings recorded prior to exiting Carer Payment were less likely to receive income support at some stage after leaving Carer Payment (58.1 per cent compared to 82.0 per cent among those without earnings).

“It’s 24/7. You have to deal with the unexpected, you can’t plan for anything. It’s exhausting physically and emotionally” –Carer

Carers indicated a desire to work but also acknowledged this is difficult given the demands of their caring role. Many carers recognise that it will be difficult to return to work when their caring role ends and would welcome support in preparing for and making that transition.

It is anticipated that with the national implementation of the National Disability Insurance Scheme there will be opportunities to free up some carers’ time.

Carers would benefit initially from a six monthly discussion to ensure their payments are appropriate and to start making them aware of skilling and volunteering opportunities. In the future, the discussion could focus on building capability for work and preparing for re entering the workforce. The discussion would be with staff skilled in helping people to plan and prepare for work after a period of time out of the workforce.

Access to appropriate employment support and training may also be needed to assist carers to re engage with the workforce after long periods spent caring.

People eligible for Carer Payment should be:

- aged between 22 (see Age of Independence) and Age Pension age, and
- providing constant care for an individual with a physical, intellectual or psychiatric disability or who is frail and elderly.

The Reference Group considers that carers need support while they are caring and help preparing for a return to paid work after, what is often, a long period out of the workforce.

## Age Pension

Payments for those over Age Pension age should be simplified by channelling all eligible individuals into one Age Pension to avoid duplication and inequities. For those without the 10 year residential qualification for Age Pension, a working age payment should continue to be paid and appropriate participation supports should continue to be provided.

The Age Pension is outside the scope of the Reference Group's work.

## Recommendations



Implement a new architecture for the income support system that is employment focused. The new system will be simpler, more coherent and clearly reward work.



Introduce a new payment architecture with five main payments, which aims to encourage education and work and which recognises that people's capacity to work can be limited by disability or caring.

The five main payments be:

- a Working Age Payment—a means tested payment for adults who are expected to work now or in the future, with three tiers to reflect the varying needs and capacity of individuals to work:
  - The Upper Tier should be for people who have a limited capacity to work and due to this are more likely to stay on payment for a longer duration.
  - The Middle Tier should be for people with moderate limitations on their capacity to work and parents and primary carers of dependent children and dependent young people under the age of 22.
  - The Foundation Tier should be for people with full capacity to work or study.
- A Supported Living Pension—a means tested payment for individuals over 22 who are permanently and severely restricted in their capacity to work.
- A Child and Youth Payment—a means tested payment paid to parents for dependent children and dependent young people, until the age of 22.
- A Carer Payment—a means tested payment for individuals over 22 with caring responsibilities.
- An Age Pension—a means tested payment for people over the Age Pension age.



Consider the Productivity Commission's final report on Childcare and Early Childhood Learning alongside proposed reforms to the income and social support systems, to improve supports for parents to participate in education and employment.



Design transitions to ensure that no individual moving from the old system to the new system will experience a reduction in their rate of payment.

## Supplements and Concessions

### Supplements

In the new system, supplements should be for clearly defined purposes and for specific additional costs. Supplements should be simpler for income support recipients to understand and access.

There are 55 supplements in the current system. The array of supplements is complex and some supplements lack a clear rationale. This complexity and lack of coherence has come about through ad hoc changes and additions over time.

The combined effect of multiple supplements and payments can be seen in Figure 1 in Case for Reform.

In the current system, it is not clear why some costs or activities are supported through supplements and others are supported through the payment system or through services. In some cases, the costs of certain goods or services are covered in part by both payments and supplements.

For example, some supplements cover general costs of living such as telephones or utilities. In moving to a simpler and more coherent system, it would make sense for the main payments rather than supplements to cover general costs of living.

Other supplements that go to the majority of income support recipients such as the Energy Supplement should be rolled into the five main payments.

It would also be appropriate in the new system to cover the ongoing costs of children through the new Child and Youth Payment rather than through specific supplements.

In the new system, supplements should then be reserved for specific extra costs or responsibilities. This should include the costs of children or young people having to live away from home to work or study or the additional responsibility involved in caring for children or adults with disabilities or people who are frail and aged.

The Reference Group considers the Government should review all supplements alongside the detailed development of the new payment architecture.



The range of supplements should sit under the following categories:

- **Housing** to assist with the costs of rental accommodation
- **Child and Family** to assist with specific extra costs related to children, such as a new born baby
- **Education** to assist with specific additional costs of children and young people, when they need to live away from home to work or study
- **Carer and Disability** to assist in caring for children and adults with disability or people who are frail and aged.

## Concessions

In the new system, concession cards should continue to be available as they provide access to health concessions and help with reducing the cost of certain goods and services. All three levels of government are involved in the delivery of concession cards and concessions.

Feedback from stakeholders and customers highlighted the importance of concession cards to individuals. Stakeholders raised concerns that income support recipients were reluctant to enter employment out of fear they would lose their concession cards. In response to these concerns the Reference Group proposes a Passport to Work to ameliorate this concern.

The Federation White Paper may have implications for how concessions are funded and delivered in the future.

## Recommendations

- » Review all supplements alongside the detailed design of the new payment architecture.
- » Supplements in the new system should be for clearly defined purposes and specific extra costs.
- » Implement four categories of supplements as follows:
  - Housing
  - Child and Family
  - Education
  - Carer and Disability.
- » Retain concession cards as a component of the social support system. Income support recipients and low income earners should receive concessions to assist with health costs and certain goods and services.

# Adequacy

## Payment Rates

In the new system, payment rates should be set by Government through a considered and balanced approach.

The Reference Group heard wide ranging stakeholder concern about the adequacy of current allowances.

The Reference Group wants to ensure that payments in the new system cover basic costs of living and costs of participation, and more adequately reflect varying capacity to work. If recipients of the new Working Age Payment work to their capacity, then the combined income they receive from income support and work should take them up to and over the current pension rate. For example, if someone with an assessed capacity to work of 8 to 14 hours is employed for one day a week at the national minimum wage, their income will be above the pension rate.

The proposed architecture for the new income support system will increase the rate of payment for a number of groups, by ensuring they are on a payment that better reflects their needs and capacity to work.

A number of stakeholders suggested some form of independent body should be involved in determining rates of payment and indexation arrangements. There were, however, contrary views that Government should maintain responsibility for the setting of rates and that it would not be appropriate for the Government to outsource control of a very significant portion of the Commonwealth Budget to external advisors. The Government needs to take into account a broad range of factors when considering decisions about expenditure.

The Reference Group is of the view that the setting of rates of payment should be left to Government.

The Reference Group considers there are principles the Government should consider in setting payment rates:

- the balance between adequacy, incentives to work and affordability
- the coherence of the system. One payment should not be changed in isolation from others
- individuals' capacity to work. Higher rates should be set for people with limited capacity to work who are less able or unable to supplement their payments through earned income.

Setting of payment rates and obligations needs to be complemented by appropriately resourced support services. Adequacy needs to be measured against the individual or household package of income support. This may include the primary income support payment, supplements including Commonwealth Rent Assistance, concessions, payments that assist with the cost of raising children and the different rates accorded to single person households relative to couple households.

## Balancing Adequacy and Work Incentives

In the new system, achieving adequacy needs to be balanced with work incentives.

The Reference Group has sought to understand the question of adequacy from the recipient's point of view. It is clear that people want to work and that where possible an adequate standard of living

is best achieved through work, not through the income support system alone. Adequacy from the recipient's point of view is about the adequacy of payments and also the financial return from work.

The Reference Group, therefore, has designed the new system to provide clear rewards for work as well as address the concerns over payment adequacy for certain groups. People need a payment that enables them to have a basic, acceptable standard of living, and that allows them to meet their obligations to look for work, or to study, and/or to support children.

The proposed new architecture aims to more accurately reflect people's circumstances and capacity to work. Current allowances were not designed to meet the needs of people who have restricted capacity to work, such as people with disability and partial capacity to work. People currently on Newstart Allowance with partial capacity to work will be on the Upper or Middle Tiers of the Working Age Payment and as a result will receive a higher payment under the new system.

## Adjusting Payments

### Twin tracked Approach to Adjustments

In a new system, the Reference Group considers that the income support payments should be adjusted to both:

- ensure living standards of people on income support reflect broader changes in community living standards
- maintain purchasing power, in line with cost of living increases.

To create and maintain a more coherent income support system, it is important that relativities between payments are maintained over time. This means ensuring in the new system that the relative gap between payments stays the same and that people on one payment do not fall behind others because of different adjustments. Payments will need to be adjusted in a consistent way to ensure coherence of the income support system.

In the new income support system, the Reference Group recommends that payments be adjusted through a twin tracked approach:

- a community living standards review—every four years, a panel of experts should review and recommend a community living standards adjustment, where appropriate, to government.
- an automatic cost of living adjustment every six months.

This should be applied to all payments and would protect the coherence of the system in the future.

### Periodic Review of Community Living Standards

In the new system, a periodic review undertaken by a panel of experts should advise Government on what adjustments should be made to payments to reflect changing community living standards.

As set out in Case for Reform, under Indexation and Benchmarking, there are shortcomings with current and proposed alternate measures used to adjust payments for changes in community living standards. These include Male Total Average Weekly Earnings, links to minimum wages and links to budget standards.

No single measure of earnings or wages accurately reflects community living standards. The Reference Group considers that a more sophisticated approach is needed.

To ensure that changes in community living standards are reflected in income support payments over time in the new income support system, the Government should commission a periodic review to determine how community living standards have changed.

The review should happen at least every four years and would be transparent with the findings of the review published.

The review should consider a broad range of factors relevant to community living standards, including:

- Trends in minimum wages, average and median earnings. This will provide evidence on how wages are tracking at the lower end of the labour market and the distribution of earnings across the labour market.
- Trends in savings, wealth and debt levels. Alongside data on earnings, this will provide context on how the population, and sub groups within it, are faring economically.
- Trends in the composition of households and household income. This will provide information on any changes in household composition that might impact on living standards, for example the length of time children are staying at home and dependent on parents.
- Trends in the nature and composition of workforce participation. This provides information such as trends in full time and part time work, underemployment, casualisation and self employment.
- The fiscal position of the government. The review should consider how feasible adjustments to payments are in the context of the short, medium and long term fiscal position of the government.
- Trends in the distribution of income support payments across groups and over generations.

In contrast to a reliance on automatic mechanisms, this approach would allow a review to undertake a comprehensive and robust analysis taking into account a broad range of indicators as outlined above.

## Automatic Cost of Living Adjustment

In the new system payments should be automatically adjusted in line with cost of living changes.

As a first step, the Government should investigate and determine which index or measure to use to adjust for cost of living.

Currently, the Consumer Price Index (CPI) is used to index allowances and family payments and the Pensioner and Beneficiary Living Cost Index (PBLCI) is also used to adjust pensions.

The CPI is designed to measure inflation in relation to a specific basket of goods and services. It is a general measure of price inflation for all Australian households. It does this by taking a basket of goods divided into 11 major groups such as food and non alcoholic beverages, alcohol and tobacco and housing and then measures the changes in the prices of items in this basket.


PBLCI was developed following the Harmer Pension Review to reflect changes in the living costs of pensioners and households receiving income support.

Both CPI and PBLCI have limitations in representing the true cost of living of income support recipients.


Other countries use a range of methods to index for cost of living. Many use the CPI but others use the Retail Price Index or specifically designed measures such as the Rossi in the UK (which excludes changes in housing costs) and in Belgium the 'health' price index, which excludes tobacco and alcohol prices.


The Reference Group considers that further work is needed to determine the most appropriate means of indexing payments to cost of living changes. The Government should undertake this review and determine a cost of living index to apply across all payments. The cost of living indexation should then occur automatically every six months. This should be mandated in legislation.


## Recommendations

- 

Adopt a twin tracked approach to payment adjustments across all income support payments:

  - a community living standards adjustment following a periodic review (at least every four years) undertaken by a panel of experts.
  - An automatic cost of living adjustment every six months, following a process to determine the most appropriate cost of living index for the new payment architecture.
- 

The expert panel established to review community living standards should consider a wide range of relevant factors in providing its advice to Government on changes in community living standards.
- 

The review should be undertaken at least every four years to determine whether payment levels are appropriate relative to community living standards. The review should be open, transparent and published.
- 

The Government should review current measures to index payments to cost of living (CPI and PBLCI) and determine the most appropriate index to use across all payments in the future.

# Making Work Pay

## Passport to Work

In the new system a Passport to Work should be a key feature. The Passport to Work is a set of personalised guidelines that make it clear to recipients how their income support package will be affected when moving into work or increasing hours and what will happen if work reduces or ends.

The Passport to Work is designed to smooth the transitions from income support to work and enable income support recipients to engage in work without the fear of what may happen if hours are reduced or the employment does not continue.

The Reference Group received a high level of feedback from stakeholders and income support recipients that a significant disincentive to work was the inability to accurately predict what impact earnings would have on income support payments, supplements and concessions. They also expressed fear of not being able to return to their previous payment if work was unsustainable.

This fear of the unknown meant many people were not prepared to take the risk and take on employment or increase their hours of work.

The aims of the Passport to Work are:

- to provide clear guidance upfront on how much better off a person will be if they take a job or increase their hours
- to reduce the fear of taking a job or increasing their hours by making it clear that, for a significant period of time the person will receive the same income support entitlement if work ends or reduces. This is to afford them sufficient time to establish themselves in sustained employment.

To achieve these aims, the main components of the Passport to Work should be:

- an assurance that if hours reduce or work ends, within a defined period, people can transition back to their previous income support package
- the retention of eligibility for concession cards for a significant period of time, for people who return to work or increase their hours
- a comprehensive and clear impact statement of how income support will be affected as hours of work change. This statement will be personalised and cover payments, supplements and concession cards and will be available online and as a downloadable application.

This should be achieved by ensuring that when income support recipients start employment or increase their hours to a point where their income support payment is zero, they will still be classified as being entitled to income support. This would include retaining eligibility for concessions associated with income support payments.

As part of the development of the new income support system, new online tools and apps should be available to ensure people have access to up to date and accurate information around entitlements and the benefits of work.

The Passport to Work will only be effective at reducing disincentives to work if it is well explained to recipients and understood by them. In the current system, some payments allow for an expedient re claim procedure but these rules are inconsistent and not well understood.

Information Technology systems should be redeveloped to better integrate the tax, employment and income support systems. This should include real time reporting of earnings. People would know more quickly and accurately how their income support payments would be affected through work or increased earnings thereby removing barriers to work.

## Coherent Withdrawal Rates

In the new system, the withdrawal of income support payments as hours of work increase will be more coherent and easier for recipients to understand.

When an income support recipient moves into work or increases their working hours, their payment reduces over time.

The complexity of current income tests means that income support recipients are confused about the rewards for working. This may make them reluctant to take up work out of concern that they would be worse off.

To ensure that work pays and that income support recipients are able to easily calculate how much they will gain from entering employment or increasing their hours, the Reference Group considers that income banking, income free areas and taper rates in the new system should be consistent within each of the five payments and to the greatest extent possible across payments.

The Government should set free areas and taper rates to ensure income support recipients can see a clear financial return from work and that there are no sudden drops in income support.

Income banking should be available in the new system to better recognise the availability of casual and seasonal work and students' work patterns.

All the details of an individual's income test and the returns achieved through working will be part of their personalised Passport to Work.

## Targeting Assistance to Need

In the new system, means testing should balance the need to target support to those who need it the most with maintaining incentives to work.

A central feature of Australia's social support system is means testing that is targeted to need. People who have earnings from work, unearned income from investments, or significant assets receive reduced payments or no payments at all.

Means testing has consequences for people's behaviour. If too much income support is withdrawn, people may not gain enough income from their earnings to have an incentive to work. In the current system, recipients can be simultaneously subject to a number of income tests at the same time ('stacking'), which reduces incentives to work.

As well as income tests there are assets tests for income support in Australia. These encourage people with low incomes but high assets to make use of savings to generate income or to support themselves.

In the current system, asset thresholds vary across payments. Non homeowners have a higher assets test threshold than home owners. In addition, there is no asset tests taper for some payments. For example, Newstart Allowance and Parenting Payment (Single) recipients experience 'sudden death' asset limits. 'Sudden death' asset limits are discussed in more detail in the Means Testing and Marginal Tax Rates section.

In designing means tests for the new system, there is a need to strike a balance between targeting based on need and maintaining incentives to work.

In the current system, there are very limited portability provisions that allow some people to continue to receive income support while overseas. However, underpinning this is an expectation that a person of working age should be in Australia looking for work or undertaking activities that help them find a job. The only exception to this is for people with a severe and permanent disability whose capacity to work is limited to the extent that there is no expectation they will work in the foreseeable future. This fundamental principle of payment portability should be looked at as part of the detailed design of the new payment system.

## Recommendations



Introduce a 'Passport to Work' for income support recipients—a set of personalised guidelines which describe how much better off people will be in work and reduce the fear of taking a job. The main elements of the Passport to Work should include:

- an assurance that, if hours reduce or work ends within a defined period, that people can transition back to their previous income support entitlement
- the retention of eligibility for concession cards for a significant period of time, for people who return to work or increase their hours
- a comprehensive and clear impact statement of how income support will be affected as hours of work or income change. This statement will be personalised and cover payments, supplements and concessions and will be available online.



Review and refine current income banking arrangements, income free areas and taper rates to ensure they deliver greater consistency and clearer rewards for work under the new system of income support.



Ensure that income tests are consistent within each payment category and to the greatest extent possible across payments.



Ensure that income banking arrangements are available for people to smooth income earned, particularly from casual work and for students. Income banking arrangements should be simple and easy for people to calculate the impact of irregular income.



In the longer term, as part of the redevelopment of ICT systems for payments, consider introducing real-time reporting and assessment of income and better integrate the tax, employment and income support systems.





Review means testing in relation to the new payment architecture to ensure:

- income support payments are targeted to those most in need
- rewards for work are clear
- negative effects of means testing such as income test 'stacking' and 'sudden death' assets thresholds are minimised
- people with similar means and circumstances receive similar levels of income support.

## Housing Assistance

In the new system, housing assistance should be recognised as a critical component of securing social and employment outcomes.

The consultations on the Interim Report reinforced the need to address poor work incentives for public housing tenants (caused by income based rents) and the discrepancies in government support between public and private tenants. This is discussed in more detail in Case for Reform under the Assistance with Housing section.

A new approach is needed that gives similar housing support to people in similar circumstances. This could involve moving from income based rents in public housing and extending Commonwealth Rent Assistance to public housing tenants.

The Government should be cautious in implementing these reforms and ensure that it does not lead to undesirable outcomes. Transitions should be developed taking a long term view and ensuring that people are given adequate time to prepare for the new arrangements. For example, the Reference Group would be concerned if a move to market based rents in public housing adversely affected groups on fixed incomes currently in public housing, such as people on the Age Pension or Supported Living Pension.

The Government White Paper on the Reform of the Federation is underway. It will seek to clarify roles and responsibilities between the Commonwealth and States. This could result in a significantly reduced or changed role for the Commonwealth in housing.

As outlined in Case for Reform, without increases to housing supply and improvements in housing affordability, Commonwealth Rent Assistance can only play catch up. Housing markets have failed to deliver sufficient affordable housing. The proportion of people priced out of home ownership has increased over time and puts further pressure on the affordable rental accommodation that is available.

The solutions for increasing housing supply and affordability are complex and multi-faceted and involve all levels of government as well as developers, private investors and the social housing sector.

## Recommendations

- » Reduce disincentives to workforce participation by moving from income based rents in public housing and extending Commonwealth Rent Assistance to public housing tenants.
- » Transition arrangements to move from income based rents in public housing would need to be carefully constructed and implemented over time to ensure people were given adequate time to prepare for the new arrangements. This could include grandfathering provisions for certain groups.
- » Review the levels and indexation of Commonwealth Rent Assistance to ensure that it appropriately reflects the costs of rental housing to tenants.

## Transitioning to the New Structure

No individual moving from the old system to the new system should receive a reduced rate of payment.

### No Reduction in Payment

When a significant reform to the income support system is made, it is often the case that current recipients are 'grandfathered'. This means they keep their current entitlements and rates and are not adversely affected by the reform.

In determining the nature of grandfathering arrangements, it is important to balance the need to protect current recipients from sudden shocks with considerations of equity (between existing and new recipients) and complexity (maintaining a set of old conditions alongside the new system).

Grandfathering for the life of a person's payment reliance can last for significant periods of time, lead to complexity and perpetuate inequities in the system. For example the Wife Pension was closed in 1995 but there are still nearly 16,000 people receiving the payment almost 20 years on.

In the move to the new system, the Reference Group is recommending that people currently receiving income support should not receive a reduced payment. It is important that people are transitioned smoothly to the new system and for their rates to remain the same until the new payment structure provides them with the same or higher rate, recognising that their obligations may change prior to this.

Where people transitioning to the new system have obligations under their new payment these will be applied in a tailored way, taking account of their capacity, recent experience and previous obligations.

## Impact on Different Groups

In the new system, payments should be better designed to meet needs and capacity to work.

Parents and guardians of dependent children under the age of 22, who under the existing system may have only been eligible for Newstart Allowance, will be on the Middle Tier of the Working Age Payment and be better off in the new system.

People with disability who have current or future capacity to work should be assisted through the tiered Working Age Payment to better reflect different work capacities. This will mean that some people, such as people with disability and partial capacity to work and who are currently receiving the Newstart Allowance, will receive the Middle or Upper Tier, with a higher rate of payment, which better reflects their limited capacity to work.

Some people with disability and a partial capacity to work, who under existing rules might have qualified for Disability Support Pension should be on the Upper Tier of the Working Age Payment and be able to access support services to help them work to their capacity. As noted earlier, nobody transitioning from the current to the new system will experience a reduction in payment.

The Supported Living Pension is reserved for people who are not expected to work now or in the future.

Obligations and supports should better reflect an individual's circumstances. This is discussed in more detail in Pillar Two and Pillar Three. For example, requirements for people with disability and a partial capacity to work should reflect their current capacity and the capability building steps and support services needed to strengthen their capacity to work in the future.

The impact of a disability may be temporary in terms of work capacity but individuals require a period of time and employment assistance, such as vocational rehabilitation, to increase their work capacity so that they are able to re-establish themselves in the labour market.

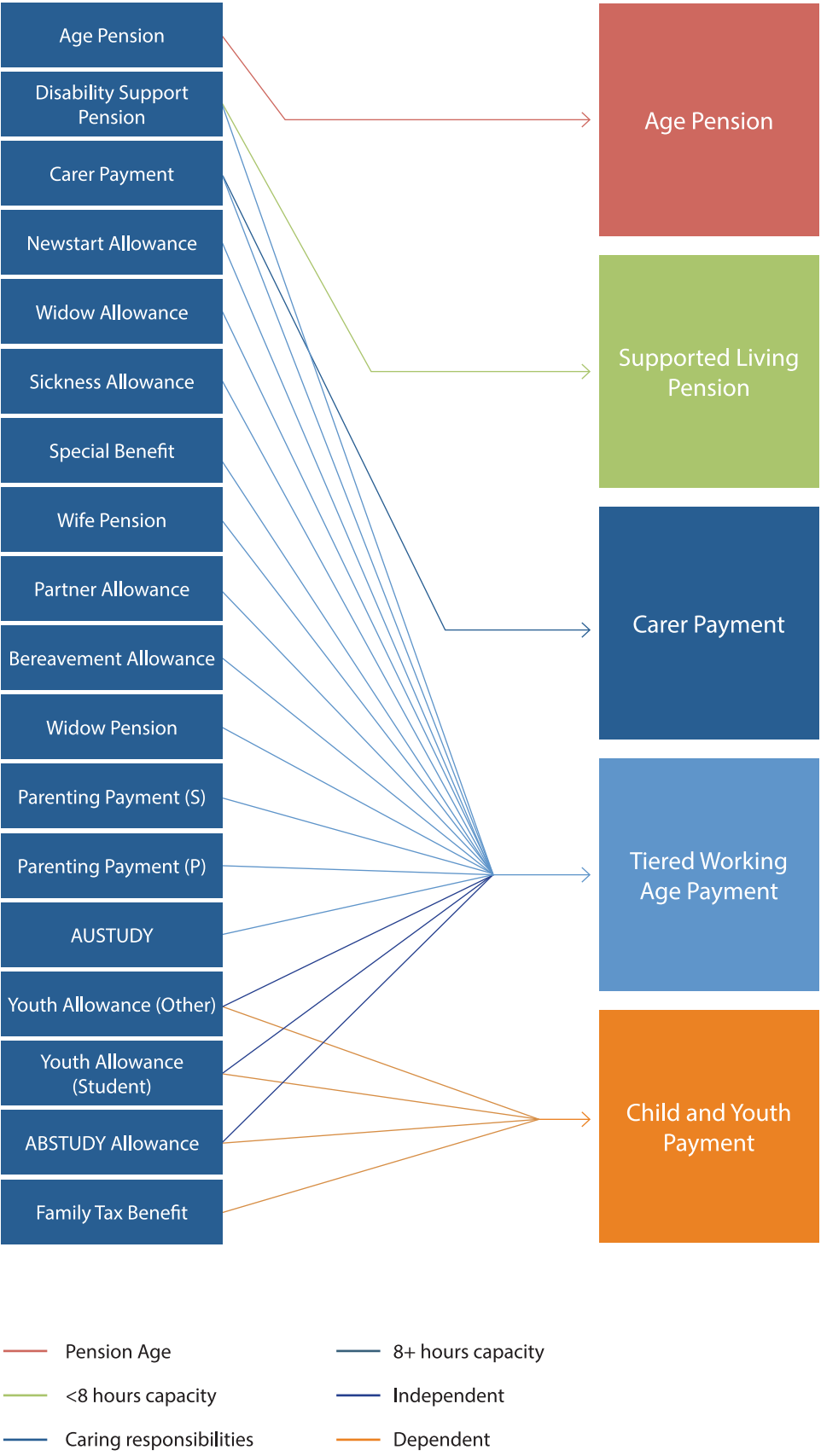
Providing support to people with disability which recognises the possibility of future participation, with appropriate medical interventions and disability employment support, will foster greater confidence and skills acquisition.

People with mental health conditions need a more flexible and responsive system of support and there needs to be better recognition of the wide range of capacity to work.

The proposed Passport to Work will be especially beneficial for people with episodic conditions who are concerned about how they will manage being in work and what will happen if it does not work out.

The diagram shows how the current multiple payment categories would transition into the new five payment architecture.

# Towards a new Payment Architecture



## Implementation

In moving to the new system, it will be important to ensure a smooth transition is achieved and that people needing assistance can access it easily. Implementation will be critical to making this happen.

### Phasing in the new system

The new system will be the most fundamental structural reform of the income support system since its inception. To ensure a smooth transition, the Reference Group considers a phased transition of payments is the best approach.

The first stage of the reform process should be the concurrent implementation of the Supported Living Pension and the Working Age Payment.

It is anticipated that the Carer Payment will undergo very limited change and should also form part of the first stage.

The reform of supplements should happen as part of stage one, except for those supplements related to the education or costs of children.

The second stage should be the implementation of the Child and Youth Payment. The implementation will be complex and it should occur once the Supported Living Pension and Working Age Payment are fully implemented.

Any changes to public housing income based rents and Commonwealth Rent Assistance will need to be considered in the context of the Review of Federation White Paper.

### Information Technology (IT) Systems

The fundamental reform of the income support system proposed by the Reference Group will not be able to be implemented without a replacement IT system.

Redeveloping the income support IT system in conjunction with income support payment reform is necessary for Centrelink to provide simpler, easier to manage claims and support services. A new IT system would enable greatly enhanced self service opportunities, make change in circumstance updates easier and enable greater use of technology now in regular mainstream use such as downloadable applications.

In addition to the redevelopment of the IT system, the ability to capture and integrate real time data, particularly income data from the ATO, would significantly reduce reporting requirements for people receiving income support and reduce the likelihood of debts being incurred.

The Business Council of Australia (BCA) in its submission to the welfare review noted that technological innovation is facilitating new services, transactions and developments in service delivery innovation. The BCA also recommended that the review should give extensive consideration to the use of technology and alternative payment delivery models to drive efficiencies in the system and improve customer experiences.

### Service Delivery

By reforming the income support system, red tape will be reduced by minimising legislative, administrative and reporting complexity. This will free up resources to enable a greater focus on support services, particularly assisting disadvantaged groups.

There are implications for government and non government service providers. These include a greater focus on employment, the identification of those groups most at risk and a greater emphasis on tailored and individualised services.

## Recommendations



In transitioning to the new system, no one has a reduction in their rate of payment.



Undertake a staged implementation of the new income support system:

- Stage One is the concurrent implementation of the Supported Living Pension, Working Age Payment, Carer Payment as well as changes to supplements and concessions for these groups.
- Stage Two is the implementation of the Child and Youth Payment as well as changes to supplements and concessions for this group.



Develop a new IT system that supports the income support reforms, enables greater use of technology and integrates real time data, particularly from the Australian Tax Office. This should make the system easier to administer and mean it is more transparent to individuals how working, or increasing hours, will affect payments. It should also reduce individuals' reporting requirements and lower the likelihood of debts being incurred.



Reduce red tape by minimising legislative, administrative and reporting complexity.

## Pillar Two: Strengthening individual and family capability

The new social support system needs to target services better to help strengthen individual and family capability and, where possible, support them to achieve self reliance through work.

The Reference Group is proposing a new social support system that better targets assistance to enable people to achieve self reliance. A new social support system should include a targeted investment approach for those at risk of long term income support reliance with a capacity for self reliance. It should also include mainstream services that would continue to provide a broad range of services to build individual and family capability.

The investment approach should be built around an actuarial valuation of the income support system that determines groups with the greatest lifetime liability in the social support system and a capacity now, or in the future, for work. Support should be targeted to these groups to achieve the greatest return on investment.

Services provided to groups in the investment stream should be tailored to help them achieve sustainable self reliance through work. Services should be designed using a comprehensive evidence base and there should be flexibility for local design. Test and learn should be a key principle of the investment approach to ensure continuous improvement in the delivery of services.

The mainstream support system should continue to provide services to address the multiple and complex barriers that people in the social support system face. The Reference Group is recommending that these services be informed by comprehensive evaluation and evidence of what works.

The Reference Group recognises the importance of personal responsibility on the path to self reliance. A new social support system should be underpinned by mutual obligations that ensure the provision of support is matched by individual responsibility to develop personal capability and engage in training and employment.

## Introduction

A well functioning social support system activates and encourages people to participate to their capacity both socially and economically. Strengthening individual and family capability is critical to maximising social and economic participation and to help people achieve self reliance.

It is clear that too many people suffer the consequences of long term income support reliance and that the current social support system is not always effective in breaking the cycle of dependence

for some groups. This can have negative long term consequences for individuals, and can flow through families causing serious intergenerational disadvantage.

The new social support system should continue to provide a broad range of mainstream support services to build people's capacity for work. These services should be strengthened by a commitment to funding services with proven effectiveness.

The new social support system should also specifically target the problem of income support reliance by identifying and investing in the groups at greatest risk of remaining on income support long term. An actuarial approach should be the basis of these reforms and would ensure vulnerable Australians no longer fall through the cracks of the income support system. Those groups identified for support will be assisted onto a path to self reliance through tailored wraparound support services that address their multiple and complex barriers.

Australians who enter the social support system should leave the system with their personal capabilities strengthened and with an improved capacity for self reliance in the long term.

## People Living a Life They Value

Nobel Laureate, Professor Amartya Sen, is renowned for the 'capabilities approach' to welfare economics.

Within the capabilities approach, wellbeing is understood as individual freedom to do and be what one has reason to value.

It prioritises people's functional capabilities ('substantive freedoms' such as the ability to live to old age, engage in work/education and enjoy supportive social relationships). This differs from other accounts of lifetime wellbeing, which focus exclusively on subjective categories (such as happiness) or on the material means to wellbeing (such as resources like income or wealth).

The Australian Treasury's wellbeing framework also draws heavily on Sen's work, which defines the capabilities approach as being concerned with:

"Providing individuals with the substantive freedom to lead a life they value: where a person's substantive freedom depends not only on their rights and liberties but also on their own abilities and characteristics, and the economic, social and natural environment around them".

The Reference Group has identified supporting people to live a life they value as a core value for the social support system. Pillar Two focuses on how the social support system can do that.

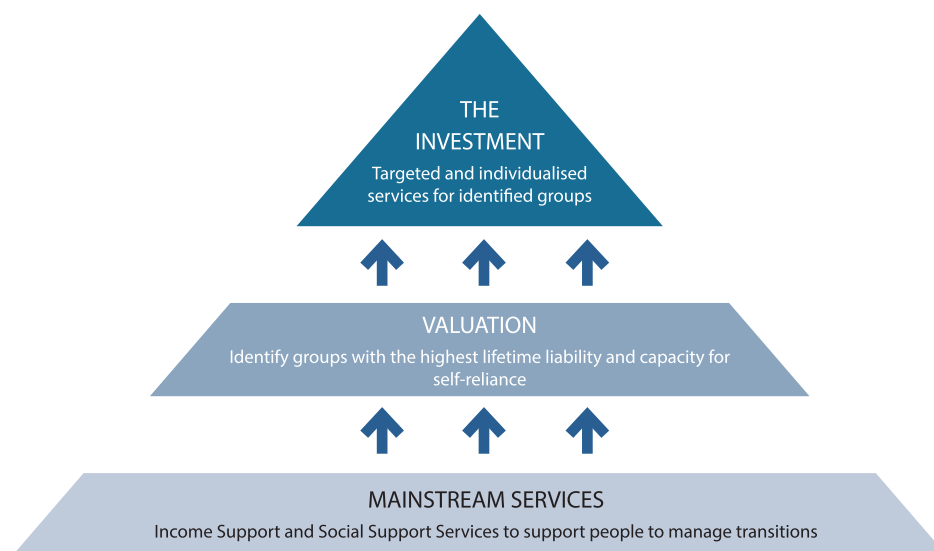
## Strengthening Individual and Family Capability

A well functioning social support system enables people to build their capability to participate economically and socially to the extent they are able.

A new social support system should provide two distinct levels of service: mainstream services and targeted investment.

Mainstream services should encompass a broad range of support services designed to support people on their pathways to self reliance through work.





Australia's future social support system should better identify and target those groups with multiple and complex barriers to work.

An investment approach should provide intensive support to those who, despite significant risk of long term income support reliance, have capacity for self reliance through work with the right support and intervention.

## Mainstream Services

People enter the social support system when events in their lives affect their capacity for self reliance. The social support system should support people through periods of vulnerability and assist them on a pathway to self reliance. Road blocks along the life course can be overcome with the right supports. The new social support system should support people by making the path to self reliance through work easier to identify and access.

### Mainstream Services

The core areas of support to build people's capability:

- building capability for work
- developing financial capability
- supporting families
- improving outcomes for young children
- health services, including mental health
- housing and homelessness services.

Most people who enter the social support system do so because they face short term barriers to self reliance. However, there are others who may need social support over the longer term. The need for social support may be linked to a period of unemployment, caring responsibilities, or health and social problems. For most people, the pathway back to self reliance will be relatively clear.

Mainstream services should be both comprehensive and responsive and should support people to build their capacity for self reliance. They should comprise a range of core supports to assist all people to work to their capacity and lead a life they value.

Services that currently exist in the social support system include building capability for work; financial capability development; family support; services to improve outcomes for children; support to manage mental health conditions; and assistance to stabilise housing. These are described in more detail below.

In the new social support system these services should be delivered with a greater focus on achieving long term outcomes for individuals, families and communities.

## Building Capability for Work

The Reference Group considers that those with the capacity for self reliance should have access to the necessary services to achieve this outcome. Being in work has a wide range of individual, family and community benefits. These benefits are discussed in Case for Reform, and it is in this context that the Reference Group proposes a social support system that assists people to get and keep a job.

Individuals need a broad skill set to enter into and succeed in employment. The Department of Industry's *Core Skills for Work Developmental Framework* identifies three distinct skill sets that an individual needs to succeed in the workplace. These are:

- technical or discipline specific skills
- language, literacy and numeracy skills
- employability skills.

These are interrelated and success in the workplace is dependent on an individual possessing all three skill sets.

Employment Services in the mainstream support system provide individualised support to help people overcome their vocational and non vocational barriers to work. These employment services support people to build their capability to work by supporting them to build their technical skills; language literacy and numeracy skills; and employability skills.

It is equally important for people to build their work capability for the future. The Australian Workforce and Productivity Agency's report *Future Focus: 2013 National Workforce Development Strategy* states that over half of Australians remain in their job for less than five years. Increasing casualisation and flexibility in the labour market creates an imperative not only to build peoples' capabilities now, but also to strengthen their adaptive capacity to prepare them for future jobs. The three skills sets identified above can work together to create a strong skills base to support people into work, and also give people the required skills to make job transitions across their careers.

## Education and Training

The need for education and training is reinforced by research examining changes in the labour market and how educational attainment affects employment prospects. The 2010 Australian Bureau of Statistics Job Search Experience Survey found that low levels of educational attainment correlated with longer periods of unemployment.

It is critical that young people are supported to remain in education or training to lay the foundation for their future career. Attainment of a Year 12 Certificate (or equivalent) is becoming a minimum requirement for many career pathways. Increasingly, tradespeople are looking to take on apprentices with high levels of educational attainment because of the core language, literacy and numeracy skills that are so important to the job.

Higher levels of educational attainment help enable young people to transition into sustainable employment.

### Technical and Discipline specific Skills

Most jobs in Australia require some level of technical skill or a discipline specific skill. These skills can be developed in a broad range of settings, from on the job training through to university degrees. Ensuring people have access to these skills development opportunities is fundamental to supporting people to acquire the vocational skills they need for employment.

The Australian Government's Industry Skills Fund will launch from 1 January 2015. The Industry Skills Fund comes with a commitment to deliver 200,000 targeted training opportunities. Training places will be delivered through a co funding arrangement between the fund and business. The co funding arrangement has been designed to encourage industry to invest in sustainable skills development and to ensure that vocational training reflects actual labour market need. Priority assistance will be given to small and medium enterprises to help them develop their business by developing their staff.

The Reference Group recognises the need for pathways into training at many points along the life course. Many people change their careers a number of times over the course of their working life, either voluntarily or because, for instance, their discipline specific skills become obsolete. Life long learning is important and the mainstream support system needs to provide opportunities for people to build their skills at any point over the life course.

### Language, Literacy and Numeracy

Language, literacy and numeracy skills are central to an individual's employment outcomes. An individual's ability to learn continuously and adapt in the workplace is predicated on them having these fundamental skills.

In 2011–12, based on a skill ranking with five levels, 14 per cent of Australians were classified as having the lowest level of literacy skills and 22 per cent had the lowest level of numeracy skills. Groups with relatively low literacy and numeracy skills include: people with low levels of education; older persons; people not working; and immigrants with a non English speaking background.

The Productivity Commission's *Literacy and Numeracy Skills and Labour Market Outcomes in Australia* report found that higher literacy and numeracy skills are linked to better employment outcomes and higher wages. For example, an increase in literacy and numeracy by just one skill level is associated with an average increased likelihood of employment of 3.6 per cent. Further the same skill increase results in an average wage increase of 10 per cent.

The Australian Government funds the Skills for Education and Employment (SEE) programme which provides language, literacy and numeracy training to eligible jobseekers. The training is delivered flexibly and is available at a full time or part time load. In the SEE programme each participant has an individual training plan based on their individual needs.

There has been a push towards incorporating language, literacy and numeracy skills training into vocational skills training and providing more opportunities for these skills to be developed formally in the workplace.

## Employability skills

Employability skills have a significant bearing on an individual's ability to successfully seek and maintain employment. For example, lacking employability skills can impact on an individual's ability to look for and apply for work. Additionally, having the confidence and social skills to operate in a workplace can impact greatly on an individual's work outcomes.

The Department of Industry's *Core Skills for Work Developmental Framework* identifies three specific employability skill clusters:

- Ability to navigate the world of work—ability to make decisions about balancing work and career and manage personal rights and responsibilities in the workplace.
- Social interaction skills—ability to communicate, build relationships and work collaboratively.
- Ability to get work done—ability to plan and organise, make decisions, solve problems, exhibit creativity, and possess digital literacy skills.

The Department of Industry is developing a Foundation Skills Assessment Tool. The assessment tool will provide a framework for the assessment of foundation skill levels, and help identify any gaps in skills and knowledge. This will benefit employers through better skills matching and assist with targeting training for individuals.

The Australian Curriculum, Assessment and Reporting Authority has developed a Work Studies stand alone elective unit for high school students in Years 9 and 10. This unit is designed to introduce students to the world of work and to help students develop a broad range of employability skills such as ICT skills, interpersonal skills and communication skills.

The Australian Qualifications Framework, which sets out the required national standards for the delivery of education and training, requires employability skills to be embedded into training for all vocational qualifications.

Industry groups articulated the need for employability skills development in Australia's workforce. This was supported by numerous submissions to the Reference Group. Stakeholders highlighted not only the importance of employability skills, but also the importance of developing these skills in conjunction with vocational training and other education and that this should begin in schools. They pointed to evidence which suggests that 80 per cent of long term job success depends on good core work skills.

## Financial Capability

The Australian Securities and Investments Commission recently published the *National Financial Literacy Strategy 2014–2017*. The Strategy outlines five strategic priorities for improving financial capability across the Australian community. These include:

- providing financial literacy education to young people through the formal education system
- increasing the take up of free, impartial financial information, tools and resources

- providing quality targeted guidance and support, particularly to disadvantaged and vulnerable groups
- strengthening co ordination between Government and service providers, and building partnerships across sectors to facilitate sharing of good practice
- improving research, measurement and evaluation.

The Strategy notes that financial literacy is an essential life skill that enables people to navigate financial decisions during their life. Good financial literacy allows individuals to pursue and achieve financial and lifestyle goals. Furthermore, good financial literacy across the population has beneficial flow on effects for the broader economy.

The Strategy notes that financially literate consumers are more likely to make good financial decisions that strengthen the demand side of the market and also reduce the incidence of poor consumer outcomes.

Stakeholders also highlighted the importance of money management and basic household budgeting skills. For people who lack basic financial literacy, appropriate training and services are a critical step on the pathway to self reliance.

The Australian Government funds a number of support services to assist individuals and families to develop their financial capability:

- Financial Capability Services—deliver financial literacy education, information and coaching and maintain a strong focus on supporting people to change their behaviours and ‘learn by doing’.
- Commonwealth Financial Counselling—provides assistance to people in financial difficulty through one on one intensive support, including advocacy and/or negotiation; referrals to other services; community education; and network/liaison with relevant service providers.
- Centrepay and Rent Deduction—enables income support recipients to set up automatic deductions from their income support payments to cover expenses such as rent and bills. It enables them to be in control of their payments and budget for regular expenses.

The Australian Government also supports a range of financial literacy and support services targeted at vulnerable groups. These services assist low income individuals and families to increase their financial capability, build savings and also access low or no interest loans to assist with unexpected expenses.

Inability to access finance can create a barrier to self reliance. It is well known there are costs associated with returning to work, for example an individual may need to purchase a car to get to a job. Assisting low income individuals and families build their capability to plan for future expenses, to save, or to access finance is essential for enabling self reliance.

The *National Financial Literacy Strategy 2014—17* highlights three programmes that have shown strong results in improving the financial capability and economic participation of vulnerable groups:

- Saver Plus—a matched savings and financial education programme delivered through a partnership between the Brotherhood of St Laurence, the ANZ Bank and the Australian Government. Saver Plus provides dollar for dollar matched savings up to a maximum of \$500 for educational expenses. In addition to the matched savings offered by ANZ (after completing the programme), free financial education, personal support and financial guidance are delivered by the community sector.

- No Interest Loan Scheme (NILS)—no interest loans for low income individuals or families typically up to a maximum of \$1,200 (but can also be up to \$1,800) for the purchase of essential goods and services (such as car repairs or a fridge). The provision of the loan is accompanied by a ‘financial conversation’ to build financial capability. This programme is delivered through a partnership between Good Shepherd Microfinance, the National Australia Bank and the Australian Government. This is discussed further in Pillar Four.
- StepUP Loans—low interest loans for low income individuals valued up to \$3,000 for the purchase of essential goods and services (such as a car). The provision of the loan is accompanied by a ‘financial conversation’ to build financial capability. This programme is delivered through a partnership between Good Shepherd Microfinance, the National Australia Bank and the Australian Government.

In discussions with the Department of Social Services, stakeholders have expressed a high level of support for the Government’s microfinance initiatives. In particular, stakeholders have noted that microfinance is an essential tool for building financial capability and self reliance. Many clearly differentiated this from other welfare based and mainstream options (for example, payday lending approaches), which do not build financial resilience.

## Income Management

Income management is used as a tool to build the capability of individuals and families by helping them stabilise their lives and better manage their income support payments to meet essential needs.

Income management is part of a package of support services available to build skills for self reliance.

It is an example of how the income support system is used to promote personal and family responsibility, particularly in relation to care of children, by ensuring a percentage of income support and family assistance payments are directed toward necessities including food, housing, utilities, clothing and medical care.

Stakeholders had mixed views about the use of income management. These views ranged from advocating for 100 per cent income management for people on income support, to others supporting income management only for those who need temporary and individualised support to stabilise their financial situation. Some stakeholders did not support income management in any situation.

Stakeholders working closely with people on income support said income support recipients can become dependent on income management. They highlighted the risk that it can act as a disincentive to move into paid employment. They mentioned cases where people moved into paid employment and struggled financially because they did not have the skills to manage their own income.

For this reason, it is the Reference Group’s view that income management should be used judiciously and should be delivered in conjunction with financial capability services that support people to develop the skills to become financially self reliant. Importantly, any changes to income management should be informed by evaluations that are currently underway.

## Family Support

### Family functioning

Well functioning families are a strong foundation from which individuals can begin a pathway to self reliance. Families that function well generate benefits for individual family members as well as for communities and government.

Australian and international research has identified major social and economic costs to governments, communities, families and individuals from family dysfunction. It can be a contributing factor to limited education, unemployment, physical abuse, alcohol and drug abuse, poor physical and mental health outcomes, teenage pregnancy, and criminal behaviour.

The Australian Government funds a broad range of services to help stabilise families:

- Family and Relationship Services—family counselling and relationship services to encourage cohesive family units.
- Communities for Children Facilitating Partners—a place based service delivery model specifically for disadvantaged communities. Communities have input into deciding what services they need to support family functioning and to improve outcomes for children. This can include play groups, parenting classes, and school readiness programmes.
- Children and Parenting Support—a range of programmes to encourage better parenting and more supportive families. Interventions can range from informal to intensive depending on the family situation.

As detailed in Case for Reform, the wellbeing of families and children can be affected if parents are not working. This is particularly the case for families working short part time hours and for single parent families, who make up a disproportionate number of jobless families.

Children who spend a significant amount of time in a jobless family are more likely to have poorer cognitive and social emotional outcomes than children in families working full time or long part time hours.

Australian Bureau of Statistics figures from June 2012 show that in Australia, 12.3 per cent of children aged 0–14 were in jobless families. Of particular concern, 42.5 per cent of children aged 0–14 in single parent families were in a jobless family.

The Australian Government is currently trialling a small number of initiatives providing holistic services to jobless families. While these programmes are in their early stages there are principles on which these services are based. They include:

- small caseloads for service providers
- ‘no wrong door’ for services to engage hard to reach families
- targeting support to all family members
- encouraging families to engage and gain support from social networks
- a long term commitment to supporting families
- encouraging vocational training that will lead to jobs
- acknowledging that the path to employment may be complex.

## Childcare

The availability of suitable childcare is a significant factor in many parents' decision to return to work or participate in education or training. OECD research has identified childcare as one of several key factors that influence women's decisions to work and the extent of their participation.

A 2013 Australian Bureau of Statistics publication, *Barriers and Incentives to Labour force Participation*, looked at factors affecting return to work. Nearly 60 per cent of women caring for children said that the availability of childcare places was a very important consideration when looking for work, followed by financial assistance with childcare costs. For women with children aged under 13 years, childcare incentives were considered particularly important.

The Draft Report for the Productivity Commission's inquiry into Childcare and Early Childhood Learning states that, due to difficulties with the costs and accessibility of suitable childcare, approximately 165,000 parents (on a full time equivalent basis) are excluded from the workforce.

In addition, they found that second earners in couple families and single parent families with children under school age face high effective marginal tax rates, which can create disincentives to work.

The Reference Group's consultations with income support recipients highlighted that parents wanted to be able to work to build both their individual and family capability.

"I want to set an example for my girls. It is important that they see me get up every day and go to work"—Single Parent receiving income support

The Productivity Commission's final report and recommendations was provided to Government on 31 October 2014 for its consideration.

## Child and Youth Development

Early experiences of disadvantage can create significant barriers to self reliance later in life. The pathway to self reliance begins early and can be supported by services targeted at improving childhood outcomes. Disadvantage can begin before a child is even born.

During the consultation process stakeholders highlighted the negative long term impacts of Fetal Alcohol Spectrum Disorder. Fetal Alcohol Spectrum Disorder can result from drinking in pregnancy, and can have a range of negative impacts on child development and their long term prospects into adulthood.

Evidence shows that young people growing up for prolonged periods in dysfunctional or jobless families can have poor developmental outcomes. Data from the Youth in Focus survey shows that 39 per cent of children from families that are heavily reliant on income support are themselves in receipt of income support by the age of 20. The majority of these young people are in receipt of Youth Allowance for unemployment rather than for study.

There needs to be a greater emphasis on prevention in the provision of services targeted at young children at risk of disadvantage between the ages from birth to five years of age. In particular, there is a need to ensure that children are not disadvantaged in terms of their early physical, social and educational development.



Social and developmental gaps in children's functioning and achievement emerge early and are significant by the time they reach school, and parents, care givers and preschool teachers are the primary influences in children's development before school. These differences in the cognitive, non cognitive and social skills are strong predictors of later academic, occupational and life achievement.

Increased services targeted at parents and children in disadvantaged households can have significant benefits later in their lives, for example, increased levels of school readiness, preschool attendance, school enrolment and achievement, reduced criminal behaviour, improved attachment to the workforce and better health.

## Mental Health Services

A mental health condition can present a significant barrier to self reliance as it can affect an individual's ability to work and manage daily activities. Mental health conditions are becoming increasingly prevalent in the Australian population. About 30 per cent of people currently receiving the Disability Support Pension have psychiatric or psychological conditions. These conditions are also the fastest growing category within this pension.

People with mental health conditions need a more flexible and responsive system of support. Some people with mental health conditions are unlikely to have work capacity now or in the future. However, for others, mental health conditions are episodic in nature and there will be periods of relative wellness where participation in work is a key part of a recovery plan. There are different degrees of capacity within different groups:

- Some people with mental health conditions are unlikely to have work capacity now or in the future and no expectations should be placed on them.
- Some people with episodic mental health conditions will have periods of relative wellness where they are able to participate in activities that are part of a recovery plan including work.

Requirements and obligations within the social support system need to be flexible enough to cater for these differences.

The National Mental Health Commission is conducting a national review to examine existing mental health services and programmes across all levels of government and the private and non government sectors. The focus of the review is to assess the efficiency and effectiveness of programmes and services in supporting individuals experiencing mental health conditions and their families and other support for people to lead a contributing life and to engage productively in the community.

The review will also consider factors such as employment, accommodation and social connectedness, and the role they play in a contributing life.

Supports that integrate employment as part of the recovery plan for people with mental health conditions have proven to be effective, not only in sustaining employment but in the recovery process.

The vocational rehabilitation approach to mental health services is supported by leading experts in the mental health sector. Submissions highlighted the importance of work for people with mental health conditions. There is strong evidence that being able to work to capacity is a high priority for people with mental health conditions.

Work oriented recovery requires coordinated services that link up clinical care with employment services and other services that assist people to stabilise their lives. Sometimes the best way to coordinate services is to co locate them.

Individual Placement and Support is one model of employment support for people with severe and persistent mental health conditions. There are principles that apply to Individual Placement and Support and other approaches, including:

- open employment—participants are supported to gain employment in the open job market
- no exclusion—if participants are willing to prepare for work they are eligible for support
- integrated employment and mental health services—employment consultants and mental health professionals work together closely and services are closely integrated
- individual strengths—jobs are based on the participant's individual strengths and interests
- income support advice—participants receive individualised advice about how work will affect their income support payment so they understand the financial benefits of work
- rapid job search—participants focus on employment in their first session and are quickly linked to employers
- employer relationships—employment consultants build strong relationships with employers so that consultants are well placed to find jobs for their clients
- time unlimited and individualised support—participants receive support for as long as they need it, including post placement support.

Integrating employment services with mental health treatment is a critical component to a vocational approach such as Individual Placement and Support. This can be with the employment service co located with the mental health service, mental health services co located with employment services, or an effective partnership between employment and mental health services to ensure a wraparound service.

As well as the Individual Placement and Support model, there are other effective models such as the Personal Helpers and Mentors (PHaMs) programme, which is strengths based and recovery focused.

The strengths based and recovery focused model is centred on individual recovery plans developed by the individual and their case manager. Recovery plans are person centred, individualised and focus on an individual's goals, aspirations and preferences and affirms their strengths, talents and capacities.

Individuals can access employment and support services including:

- housing assistance
- developing daily routines and family functioning
- navigating employment and income support services
- involvement of family and friends to support the transition to work
- engaging mental health clinicians and health professionals in support of individual plans
- workplace support for employee and employer.

## Housing

Housing is essential to support employment and wellbeing, and to assist people on their path to self reliance. Housing fundamentally enables participation through access to shelter and security. Affordable housing with easy access to jobs and services is crucial to allow people to participate socially and economically in society. Importantly, it provides a stable base for raising children and supports community engagement.

Ensuring all Australians have access to stable housing is a complex issue. The policies that regulate the supply and demand for housing in Australia lie with multiple levels of government as well as with groups outside government.

Access to stable housing for vulnerable Australians remains a central concern for governments. The National Affordable Housing Agreement (NAHA) sets out the division of responsibility for housing and homelessness services across the Australian, state and territory governments. The states and territories have primary responsibility for the administration and delivery of housing and homelessness services, with funding contributions from the Australian Government. The National Affordable Housing Specific Purpose Payment, under the NAHA, provides the states and territories around \$1.3 billion annually to fund housing and homelessness initiatives. These include public and community housing initiatives, which provides stable and affordable housing to disadvantaged people.

One group that is particularly vulnerable to exclusion from social and economic participation is homeless people. On any given night in Australia, around 105,000 people are homeless. Homelessness reduces a person's capacity to complete the most basic activities necessary for their social and economic participation.

The NAHA, provides funding to Specialist Homelessness Services for those people who are homeless or at risk of homelessness. This is a key priority given the significant negative impact that housing instability has on an individual's ability to get a job and become self reliant.

Research shows that homelessness disproportionately affects certain groups in the population. For example, a significant proportion of people who are homeless also have mental health conditions or struggle with substance abuse. These groups represented 20 per cent and 9 per cent respectively of the homeless population in 2012–13. These figures underscore the importance of integrated support services that address the multiple barriers people face.

Specialist Homelessness Services encompass a broad suite of support services delivered by a range of providers across the government, community and private sectors.

“Without a permanent home my life is too uncertain to consider what my future might look like”—Income Support Recipient with Disability

The new social support system should have the capacity to identify when a person's housing situation is unstable. Information such as frequent address changes in the income support system should trigger a rapid referral to homelessness service providers. Homelessness interventions should be accessible through soft entry points and be integrated with other services.

There is a range of housing models across Australia that provide housing support in conjunction with other services, recognising that homelessness is often the result of multiple and complex disadvantage. One that works with young homeless people is the Foyer model. The principles of the Foyer model include:

- an early intervention approach
- wraparound services and support
- development of independent living skills, education, training and employment
- focus on people's strengths and capacities.

This integrated approach has proven to help young people stabilise their lives and find pathways to education and employment.

## Recommendations



Ensure that young people remain engaged in education or training until they are able to transition into sustainable employment.



Through funding and agreements, the Australian Government should develop the capability of disadvantaged groups to work through:

- technical and discipline specific skills
- language, literacy and numeracy skills
- employability skills.



Continue to provide financial literacy training and support services targeted at vulnerable groups in order to increase their financial capability, build savings, and access to finance.



Income management should be used judiciously and should be delivered in conjunction with financial capability and other support services. Its outcomes need to be evaluated.



Fund and evaluate services to support family functioning, including initiatives targeted at jobless families, to ensure their effectiveness.



Ensure quality and affordable childcare is available for parents to participate in education, training and work.



Continue to fund early intervention programmes to improve children's early physical, social and educational development.



Ensure that integrated employment and mental health services are available to people with mental health conditions. This can be with employment and mental health services co located, or an effective partnership between employment and mental health services to ensure a wraparound service.



Governments should ensure that housing and homeless support services build strong links with mental health and employment services to address the multiple and complex barriers facing people who are homeless or at risk of homelessness.

## An Investment Approach

An investment approach targets resources up front to build capability and pathways to jobs for disadvantaged groups. This reduces the future liability associated with group members becoming long term income support dependent.

Early intervention is a critical feature of an investment approach and involves targeting services and interventions to people at risk of becoming long term reliant on income support. There is strong evidence that early intervention is effective in preventing social problems, breaking the cycle of intergenerational disadvantage, and in making long term savings in public spending. This approach is widely recognised across the Organisation for Economic Co operation and Development (OECD) and the European Union (EU).

A key issue in targeting investment is identifying those people most at risk of long term disadvantage. An investment approach that identifies people at highest risk and targets investment towards them has been a focus of the Reference Group. In addition, the Reference Group has considered international evidence and practice, including visiting New Zealand to study its investment approach.

## Assessing Risk

Insurance companies have for many years used actuarial analysis to predict risk and set premiums and conditions on policies. More recently workers compensation schemes have used similar models to predict who is at most at risk of being out of work for a long time due to a workplace injury. Based on the indicators of risk, workers compensations schemes using this approach have been intervening early to get people back to work.

The insurance approach is also one of the central principles of the National Disability Insurance Scheme (NDIS). Actuarial modelling is used to estimate and manage the costs of support services across the life course and to monitor, evaluate and report on the overall performance of the NDIS.

## Investment Approaches in the OECD and EU

The OECD in its latest analysis and commentary *OECD Society at a Glance 2014* supports a strong, longer term social investment focus and argues governments should make funding of investment type programmes a priority. It suggests that to be effective social investments need to maintain and strengthen supports for the most vulnerable groups.

It proposes there is a strong case for designing government support in ways that harness and complement, rather than replace, households' own capacities to cope with adversity. It is especially important to provide effective employment support, even if this means higher spending on active social policies in the short term.

The European Union (EU) social investment approach invests in people to strengthen their skills and capabilities and support them to participate fully in employment and social life. Social investment is throughout the individual's life.

The EU social investment approach is underpinned by a focus on simple, targeted and conditional social investment and increasing the sustainability and adequacy of social support systems.

## The New Zealand Investment Approach

New Zealand has introduced an investment approach for the long term management of its income support system. This new strategy is focused on getting people into jobs through investment in evidence based services where return on investment is likely to be highest.

### The New Zealand investment approach:

- data collection and actuarial analysis
- valuation and revaluation
- monitoring and evaluation
- flexible programme funding
- test and learn
- continuous improvement.

A key aspect of this approach is the use of an actuarial valuation to establish lifetime costs (liability) of both the overall income support system and of specific groups within the system. This information is used to design a support system that pre empts and prevents future costs.

The core principles of the New Zealand investment approach are:

- clear, coherent goals and accountability measures set by Government
- annual actuarial valuations to identify clients in need of investment based on their projected lifetime patterns of income support reliance
- flexibility to direct funding towards identified client groups
- an openness to trial new approaches with monitoring and evaluation to ensure continued effectiveness
- re investment of benefit savings in approaches that are proven to be effective in improving client outcomes and reducing future costs.

Based on the groups identified for targeted support by the actuarial analysis, the approach can identify which support services achieve the best return on investment.

This approach has added a new level of transparency and foresight about the government's exposure to future social support costs that had not existed previously. This has made it possible to achieve long term savings with short term investments.

The New Zealand investment approach is underpinned by clear goals and accountability measures set by the Government. Its objectives are to reduce income support dependence, increase flexibility in services and focus on jobs. These objectives are supported by targeting resources where the return on investment is highest.

## Valuation

As a first step, the New Zealand Treasury and the Ministry for Social Development (MSD) jointly commissioned an actuarial company to do a baseline valuation of the future liability of the income support system.

This valuation determined the lifetime cost of income support for current clients at \$86.8 billion in 2012. It also broke the valuation down into various client groups e.g. youth, single parents, people with disability, carers and unemployed people. With this breakdown, services were designed to specifically target interventions towards certain cohorts.

## Case Management and Support Services

Individual case management is used to wrap a comprehensive and tailored set of services around individuals. These services are designed to build self reliance and assist at risk individuals to move off income support. This can include supports to undertake education and training, job search, housing and financial management.

Investments are evidence based interventions with a strong local design and delivery focus. Ongoing monitoring is matched by openness to trial new services and supports. These trials build an evidence base around which type of interventions work and which do not for different groups of income support clients.

## Revaluation

The follow up annual valuation by the actuary company in 2013 showed the current liability (lifetime cost of income support for current clients) had reduced from NZ\$86.8 billion in 2012 to NZ\$76.5 billion in 2013. This was NZ\$7.4 billion lower than expected.

After taking into account forecast changes in CPI and unemployment rates, NZ\$1.8 in billion savings are due to a projected increase in people leaving income support and a decrease in people coming onto income support. This indicated that at least NZ\$1.8 billion in savings were due to welfare reform policy and programme changes, which resulted from the actuarial analysis.

The forward liability for people in receipt of income support decreased by 10.5 per cent between June 2012 and June 2013. This is attributable to reductions across four working age income support payments: youth; supported living payment; sole parents; jobseekers.

The revaluation also provided an opportunity to identify new groups of people whose liability could be reduced. Based on the 2013 actuarial valuation, the MSD identified six priority cohorts for the

subsequent 12 months: entrenched beneficiaries; early entrants; clients who churn on/off benefits; single parents; skilled jobseekers displaced during the global financial crisis; and motivated young Supported Living Payment recipients (people with severe disabilities).

## Accountability and Governance

The Work and Income Board, comprising a panel of experts, was established to oversee the investment approach to social support. The Board advises and supports the Chief Executive of the MSD in the implementation of welfare reform. It also reports to the New Zealand Government on the performance of the Work and Income Agency.

## Ongoing Monitoring

Support services are subject to ongoing monitoring by the MSD which is matched by a preparedness to trial new services. These trials build an evidence base of effective interventions. They are used to improve services continuously. Monitoring data is used inform future revaluations.

Under accountability arrangements, Treasury must report quarterly to the Minister for Finance and the MSD about the performance of the investment approach.

This reporting includes the results of the new investment management process and keeping Ministers informed about MSD performance in improving long term employment outcomes. Treasury also outlines any proposed changes in service delivery as MSD reprioritises its interventions.

The MSD established a single advanced data analysis hub in 2012–13 to be a centre of expertise for advanced data analytics. The Knowledge and Insights Data Hub provides MSD: insights into policy and operational delivery; contributes to innovation, evaluation and continuous improvement; and a more integrated and comprehensive view of its clients to support welfare reform.

Greater and smarter use of administrative customer data is helping to provide MSD sustained efficiencies and contributing to achieving better policy and service delivery outcomes.

## Evaluation

Services and supports are subject to ongoing evaluation. Evaluation considerations are integral to the design of new initiatives, and performance is measured against expected client outcomes and return on investment.

Actuarial analysis of the long term social support liability is conducted on an annual basis. The New Zealand Government has maintained a transparent approach to these evaluations and continues to place information gathered in the public domain.



### New Zealand Return on Investment

The 2013 actuarial revaluation of the New Zealand social support system found that the forward liability had fallen from NZ\$86.8 billion to NZ\$76.5 billion. A total reduction in lifetime liability of NZ\$10.3 billion. This was NZ\$7.4 billion lower than the result forecasted in 2012. The revaluation showed:

- 5 per cent reduction in the number of job seekers and single parents receiving income support
- 3.6 per cent reduction in the total number of people in receipt of income support from 2012 to 2013. In the Australian context this would be equivalent to 54,475 fewer Australians receiving working age income support.
- more people leaving income support permanently
- a higher rate of single parents working part time
- 40 per cent increase in young parents engaged in education and training.

### Flexible Funding

The investment approach requires flexibility to direct funding to groups of clients identified through the actuarial modelling.

New Zealand introduced a new Multi Category Appropriation to give those facilitating the investment approach more flexibility to direct investments where they are shown to be most effective. This includes cashing out programmes that do not deliver return on investment and re investing in more effective services.

### New Zealand: Investing in Young People

The New Zealand investment approach confirmed that young people (under the age of 24 years) are at very high risk of remaining on income support for long periods of time. In particular, there is a group of young people who go onto income support at under 18 years, particularly those who have exited “state care” and young, single parents, who are most at risk of long term income support dependence.

### Youth Service

The Youth Service was implemented in New Zealand in 2012. It links young people with education, training, work based learning, income management and parenting activities. Initial evidence suggests the approach is working.

Youth Service involved more than NZ\$148 million in services targeted at three groups: Youth Payment; Young Parent Payment; and young people who are Not in Employment, Education or Training (NEET) participants.

## Use of data

New Zealand's new information sharing provisions and a customised Information Technology System support this initiative. Outcomes based contracts and monitoring, differentiated payments for milestones and higher payments for harder to achieve outcomes allow providers to be innovative and flexible according to their clients' individual needs.

The supports needed for an individual are determined by a risk rating based on information from multiple agencies, detailed client histories of each young person and an assessment performed by the provider. Where a barrier to participation is identified, a provider will tailor a support package and arrange for access to the appropriate services or interventions to address the barrier. Tailored support services stabilise lives and increase an individual's capacity to engage in education or work.

## Outcomes

The evaluation showed there are early signs of success. All three sub groups of the Youth Service participant group showed particularly strong results.

As at March 2014 the proportion of clients engaged in education, training, or work based learning had increased in all three categories:

- Young Parent Payment—87 per cent, up from 46 per cent a year earlier.
- Youth Payment—88 per cent, up from 65 per cent a year earlier.
- NEET participant group—77 per cent, up from 52 per cent a year earlier.

## Adopt and Adapt the New Zealand Investment Approach

The Reference Group considers that an investment approach to a new social support system would improve outcomes for people at risk of dependence on income support significantly. This investment approach would also lead to significant savings for the Government in reduced income support payments.

The key principles underpinning the initial success of the New Zealand investment approach are:

- a strong evidence base
- commitment to flexibility and adjustment
- consistent focus on achieving a return on investment
- successful implementation.

These principles have potential to improve the efficiency and effectiveness of social support services in Australia.

Some key elements of the implementation were: the establishment of a Board and strong governance arrangements; a staged roll out; reforming the payment structure in conjunction with the implementation of the investment approach.

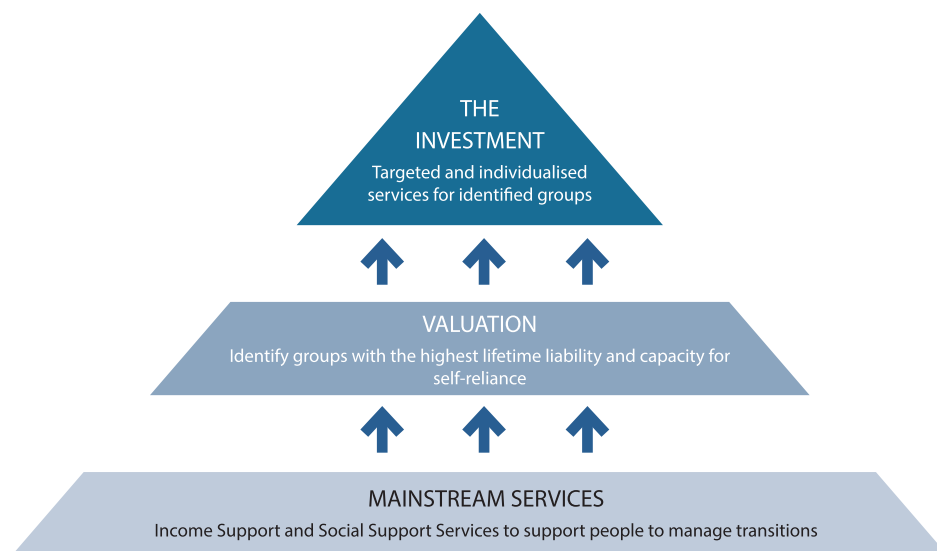
## An Australian Investment Approach

### An Australian Investment Approach

The Reference Group recognises the mainstream social support system is not providing some of Australia's vulnerable groups with the level of support they need. This includes individualised and intensive investment in order to achieve self reliance and live a life they value.

The investment approach should be a central design feature for Australia's new social support system. The investment approach needs to work in tandem with the new payment architecture, outlined in Pillar One.

An investment approach would prevent long term income support dependence through early intervention and targeted investment. These targeted investments would be designed to achieve a return on investment and would reduce the forward liability of Australia's social support system. This would improve the economic, fiscal and social sustainability of the social support system over the long term.



The design of the investment approach would be informed by a comprehensive evidence base. Data would identify the groups at greatest risk of long term income support dependence as well as those groups with the strongest chance of breaking this reliance through tailored support. This information would shape the investments to ensure a return on investment. Rigorous evaluation practices would identify the most effective support services to address the barriers to employment that target groups face.

Ongoing data monitoring and programme evaluation would be integrated into the Australian investment approach. This would ensure the social support system would be subject to ongoing improvement.

Policy innovation should drive improvements in the delivery of support services in the investment approach. Innovation would be facilitated by flexibility, local design and a focus on testing and learning from programme pilots. There would be greater flexibility within the system to trial new approaches and local design would be encouraged. This acknowledges that service providers on

the ground are best placed to identify what supports their clients need and to tailor the services accordingly. Innovation would be encouraged by a test and learn approach to new policy ideas.

Greater flexibility and devolved responsibility for the design of interventions would be backed up by a greater degree of local accountability for achieving a return on investment. Service providers would be required to show that their interventions were achieving results for the clients and in turn for the income support system.

Flexible funding combined with ongoing monitoring and evaluation would make it easier to direct funding towards evidence based interventions where they are needed most. This is in contrast to the existing system where funding for trials is often tied to participant numbers or timelines. The new model would reduce waste by ensuring programmes cease where evaluation shows that they are not delivering the required outcomes.

## Implementing an Australian Investment Approach

The first step in developing and implementing the investment approach would be establishing annual actuarial valuations of the income support system. This would develop an understanding of the lifetime liability. It would also highlight the characteristics of groups with high lifetime income support costs. Subsequent annual actuarial revaluations would also be used to measure the effectiveness of interventions.

The groups with the highest lifetime income support cost would be identified from these valuations. Based on the characteristics of these groups, evidence based interventions would be implemented to increase their chances of sustained employment. This step would be more robust if there is cooperation between the Australian Government, states and territories to include data such as health, justice, housing and child protection data. Initially the use of data from sources such as the income support system, Medicare and the Australian Institute of Health and Welfare would be a first step while jurisdictional arrangements are made.

Australia would need a coherent approach to data collection and analysis to support its investments. The need to manage better data across government is supported by the directions outlined in the Department of Finance's *Australian Public Service Big Data Strategy*. It suggests that the effective and judicious use of 'big data' analytics can streamline service delivery, create opportunities for innovation, and identify new service and policy approaches.

Comprehensive, high quality, accurate and timely data on programme service performance and outcomes is essential for the actuarial approach. There would be a need to enhance existing and build new programme management information (MI) systems so that the necessary programme data collection, monitoring and reporting is available to support the evaluation capability of the Australian investment approach. Enhanced and new programme MI systems should also include a strong internal actuarial and advanced data analytics capability to inform ongoing valuations and revaluation and investment decisions.

This would need to be done in tandem with redevelopment of the current Department of Human Services technology platform to support the implementation of a new income support system (covered in Pillar One) given the need for customer and programme data sharing and linkage between systems.

Insights and evidence from the actuarial valuations would inform the design and implementation of evidence based interventions. The interventions would be made at key points in people's lives when they can be most effective in building the capacity for self reliance.

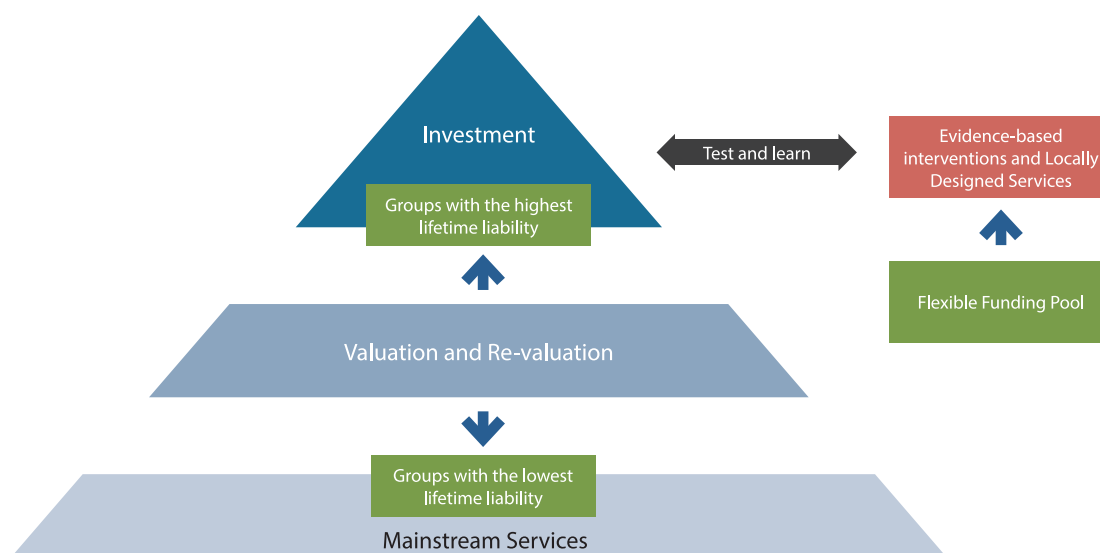
Once developed, an investment approach would act as a permanent and regular ‘health check’ for the Australian social support system. The approach would ensure sustainability of the social support system in the long term.

Crucially, the investment approach should be adapted to the Australian context while also being informed by evidence of what has worked in New Zealand and the OECD.

The unique Australian policy settings should be factored into calculations of the lifetime liability of Australia’s social services system.

For example, Australia has a means tested Age Pension only paid to those who are unable to finance their own retirement through their superannuation. This creates a major imperative to invest in supporting Australians to achieve self reliance both now and into the future through their superannuation savings.

Figure 11: An Australian Investment Approach



**Flexible funding pool**—the investment approach relies on flexible funding. This includes the ability to cash out programmes with poor outcomes and invest in new programmes.

**Evidence based interventions and locally designed services**—a broad range of support services would be available to tailor services for at risk clients.

**Test and learn (including monitoring and evaluation)**—test and learn will ensure continuous improvement of support services. Ongoing monitoring of service outcomes would contribute to the data and evidence for evaluations and revaluations. Rigorous evaluation of services would ensure that support services would deliver outcomes for individuals in the income support system.

**Valuation and revaluation**—an initial actuarial valuation would be supported by annual revaluations that will calculate the new lifetime liability for the income support system. It would determine the return on investment through the reduction in the liability. It would also identify new groups for investment.

## Actuarial Valuation

An actuarial valuation would need to be undertaken to assess the total lifetime liability of the social support system. This assessment would outline both the total liability and provide the breakdown of this liability across different groups of people on income support e.g. youth, people with disability and mental health conditions, and single parents. The valuation would be central to the investment approach.

Based on this assessment, groups with the highest liability and an established capacity to move to self reliance would be identified for investment.

## The Investment

Within the investment approach, groups with the highest long term liability and capacity to move to self reliance (and so potential for a return on investment) will receive intensive investment through a programme of tailored supports.

Services would be selected based on their effectiveness in delivering outcomes. Initially, the support provided would be chosen based on existing evidence about what works. As time progresses there will be substantial room for adapting and changing the services that are part of the investment approach.

The investment approach also has a unique focus on local solution design and local accountability. This ensures that support services target groups at risk of long term income support reliance while also addressing local social, community and labour market issues.

## Delivery

The Australian Government would be the driving force behind the investment approach and would need to establish a sound framework for delivering support services that are evidence based and deliver a return on investment. Government would engender a long term focus by determining funding allocations based on long term savings goals.

The Australian Government would need to work closely with state and territory governments to ensure a coherent approach to the delivery, monitoring and evaluation of support services. There would be a strong emphasis on flexible funding and local service design.

The investment approach would be built around achieving long term objectives. Accordingly, service providers would need to adjust their services and targets to achieve longer term outcomes. If the long term liability of the social support system is to be reduced, people would need to gain employment and move off payment and they would also need to stay off payment. There would also need to be a concerted effort from service providers to build workforce capability in individuals to reflect this long term outcome focus.

A more focused case management approach would be needed to ensure that the investments are individualised and coordinated. This should include a 'no wrong door' approach. The person at risk should get all the information and support they need when they start their journey through the system.

## Monitoring

Ongoing monitoring of the social support system is built into the actuarial model. Annual revaluations provide a detailed annual profile of the size and scope of the income support system and indicate whether investments are effective.

Annual revaluations will determine whether the future liability of the social support system has improved, and ensure that those groups at greatest risk of long term income support dependence are identified.

Ongoing monitoring ensures the system has the flexibility to adapt to social and demographic changes.

The investment approach should undergo a full qualitative and quantitative evaluation to ensure it is effective. The approach would need to run for at least five years before this evaluation.

### Evaluation

A commitment to ongoing, rigorous evaluation will ensure that services and programmes are properly assessed. Based on the outcomes of these evaluations programmes can be improved, new supports can be introduced and services that are not delivering outcomes discontinued.

Over time, this process ensures that the evidence base for investment is expanded and strengthened.

## Recommendations

-  Develop and implement an Australian investment approach.
-  As a first step in the investment approach, undertake a comprehensive actuarial valuation of the lifetime liability of the income support system.
-  Based on the actuarial valuation, invest in those groups with the largest lifetime liability and the capacity to move to self reliance.
-  A revaluation should be conducted every year to determine whether there is a return on investment and to identify new priority groups with higher lifetime liabilities.
-  A test and learn funding pool should be available to fund and evaluate trials of new interventions.



Implement a flexible funding programme that is responsive to emerging and local needs, responds to evaluations by redirecting funding, identifies programmes that are not delivering outcomes and ceases funding with resources redirected back into the investment pool.



Implement an evaluation capability to ensure that services are evaluated and an evidence base developed to support future investments.



Enhance existing and build new programme management information (MI) systems, along with advanced data analytics expertise, to support an effective evaluation capability.

## Mutual Obligation

The new social support system should be designed to improve people's lives by supporting them to build their capability and to work to their capacity. People in the income support system should benefit from a comprehensive package of support services and a payment architecture designed to make work pay. This new system should be underpinned by mutual obligations that ensure the provision of support is matched by individual responsibility to develop personal capability and engage in training and employment.

In consultations, numerous organisations supported the concept of mutual obligation, but highlighted that conditions must be tailored to an individual's circumstances, needs and capacity. This includes consideration of non work activities for some groups where employment is not a realistic short term outcome or where there are significant barriers to employment.

Mutual obligation requirements need to follow this tailored approach and include both employment and social obligations where appropriate. Conditions placed on the receipt of income support should be targeted to strengthen individual capability and assist a person on the pathway to paid employment.

## Economic

Mutual obligation can be applied to a broad range of activities and achievements. Mutual obligation should be one of a range of tools that service providers can use to tailor an individual's support package.

The *Welfare to Work Evaluation Report* found changes to Parenting Payment, including mutual obligation for parents with school aged children, increased workforce participation and reduced reliance on income support. The report found that during 2006–07:

- recipients left income support faster, primarily for jobs—38 per cent of single principal carer parents with a youngest child aged eight to 15 years on Newstart Allowance had left income support after six months compared with only 15 per cent in the years immediately before the change



- the proportion of parents with children aged six to 15 in paid employment after six months increased from 20 per cent to 29 per cent
- more than 70 per cent of principal carer parents left income support for employment
- 70 per cent of principal carer parents directly affected by Welfare to Work participated in employment services throughout the year.

The Organisation of Economic Co operation and Development (OECD) undertook a study of activation policies across a range of countries. In its Australia report, *Activating Jobseekers: How Australia Does It*, the OECD concluded Australia's activation strategy since the mid 1990s has achieved notable success. The combination of participation requirements and employment assistance has resulted in a reduction in the income support reciprocity rate.

### Responsibility to Work

Mutual obligation is used most commonly in the current system to ensure payment recipients achieve specific employment outcomes. Where appropriate to the individual, the most effective strategies to increase employment and reduce reliance on income support combine assistance and rewards for employment, with clear and fair expectations that people with capacity to work seek to become more self reliant.

However, the application of mutual obligation is not particularly broad. Currently, over half of working age people on income support are not required or actively encouraged to participate in activities that would assist them to become more self reliant.

Additionally, participation expectations are set largely on the basis of payment categories. Income support recipients within the same payment categories are assumed to have similar characteristics and therefore similar capacity, availability and readiness for work. At the same time, in payment categories where job search is expected, individual exemptions can be used to reflect a person's circumstances where appropriate.

Current arrangements, where exemptions do not take account of individual circumstances, risk under estimating a person's capacity to participate. For example, someone may not be fit for full time work but may still have some capacity to prepare for work. However, the current system will exempt them from participation requirements.

A more tailored approach to mutual obligation would mean a person's capacity is assessed and their mutual obligation tailored to their particular circumstance, reducing the need for blanket participation exemptions. This would ensure that all job seekers can continue to access employment services and be supported by the broader social support system.

### Work for the Dole

Under recent measures introduced by the Australian Government, job seekers aged between 18 and 30 with an identified capacity for work and with job search obligations will be required to take part in Work for the Dole activities.

The number of hours to be spent undertaking Work for the Dole activities will be prescribed by the individuals mutual obligation activity requirements. These requirements are set based on an individual's capacity to work.

Work for the Dole activities are work like experiences which can assist individuals to build foundation skills and their capability for work.

## Social

Mutual obligation can also be used to encourage behaviours beneficial to the individual and the broader community, including:

- child immunisation requirements for parents in receipt of both Family Tax Benefit part A and Child Care Benefit. Children under seven must be up to date with their immunisations or have an approved exemption
- pre school clinical health check requirements for children whose parents are in receipt of Parenting Payment, Newstart Allowance, or an income support payment from the Department of Veterans' Affairs and in receipt of Family Tax Benefit part A
- School Enrolment and Attendance Measure (SEAM) in the Northern Territory. Parents covered by SEAM are required to ensure that school aged children are enrolled in school and attend every day.

Income Management, which is discussed further under the Financial Capability section above, is another obligation placed on certain income support recipients. Income management quarantines a proportion of a person's income support payment to ensure that it is spent on priority needs, such as food, housing and utility costs.

### Tailored Mutual Obligation Set by Service Providers

In addition to more tailored participation requirements, service providers should have the flexibility to extend mutual obligation to other activities or outcomes. Tailored mutual obligation should be one of a number of tools available to service providers to assist people on their path to self reliance.

For example, a service provider may identify difficulty with budgeting as a significant barrier for a client. In such a case a service provider may set completion of a money management course as a mutual obligation.

Localised, real time application of mutual obligation would ensure that an individual's responsibilities match their capacity but also work in tandem with the supports they are receiving to help them address their individual barriers.

Tailored mutual obligation should be matched with a responsive and individualised service system that supports the individual and ensures they are capable of meeting the conditions placed on them. If individuals are required to fulfil certain activities, then there should be an equal responsibility for the Government to ensure services are available and appropriately designed.



A more tailored and flexible approach to mutual obligation should be available to service providers to assist individuals on their path to employment.

## Pillar Three:

# Engaging with Employers

The new social support system should have a strong employment focus with business playing a key role supporting people disadvantaged in the labour market to find employment.

The labour market is changing. Understanding where the jobs are and areas where there are skills shortages will ensure people have the best possible opportunity to secure a sustainable job. This will also ensure education and training can be effectively linked to employer demand.

Employers need encouragement and support to employ people disadvantaged in the labour market. It is important to focus on the needs of the employer along with the job seeker so long term sustainable employment outcomes can be achieved.

There is a need for a Jobs Plan for people disadvantaged in the labour market to ensure everyone has the opportunity to find employment. This includes providing tailored support for people with disability and mental health conditions.

## Introduction

The labour market is changing, with more highly skilled jobs, increasing part time work, flexible working arrangements and growing and emerging industries. As the labour market changes, the needs of employers change. Training and education needs to keep pace with the needs of employers to ensure people have the best possible chance to obtain a job by filling skills shortages.

In the G20 Labour and Employment Ministerial Declaration of September 2014, labour and employment ministers recognised the need to tackle the economic and social consequences of unemployment and exclusion. The need to create meaningful, sustainable jobs is highlighted as a priority for all G20 nations. Supporting disadvantaged groups to maintain quality employment is detailed as a key strategy to increasing living standards for all and addressing issues of inequality.

Employers have a key role to play in employing people disadvantaged in the labour market, and realising the business benefits of employing a diverse workforce. Employers are increasingly recognising the business potential of engaging people traditionally outside the mainstream recruitment pool. These employers have an ongoing commitment to diversifying their workforces and have embedded diversity into their recruitment practices.

In a new social support system that promotes workforce participation for groups currently disadvantaged in the labour market, such as people with disability, employers may need support to provide people with real and meaningful jobs. To achieve this, matching the right person to the right job is necessary. While supports are needed to assist people on the pathway to employment, an equal focus is required on supporting the needs of employers.

## Where are the Jobs

The Australian Government has committed to creating one million new jobs within five years and two million new jobs over the next decade. This will result in increasing numbers of people participating in the workforce. To fill these jobs in the long term, businesses will have to draw from a wider pool of potential workers.

There is currently a shortage of jobs in many fields and a mismatch of jobs in others with skills shortages for some occupations.

Understanding what type of jobs are available now and what they may be in the future, can assist in supporting prospective employees to gain the relevant skills to find sustainable long term work. Employers will also have the benefit of drawing from a pool of prospective employees with the appropriate skills, regardless of whether the individual is from a disadvantaged group (such as a person with disability).

## Changing Labour Market

Australia's labour market has been changing over recent decades. The Australian economy is undergoing major structural changes, with continuing growth in highly skilled jobs outpacing lower skilled jobs growth, the increased casualisation of the workforce, ageing of the workforce and flexible workplace conditions. Further detail on changes in the labour market, including increases in part time employment is highlighted in Case for Reform.

This flexibility extends past working hours. A number of jobs now allow employees to work remotely, while still staying connected with other employees. Information and communications technology (ICT) offers the potential for people to 'telework' i.e. to work regularly from a place other than the office. The rollout of the National Broadband Network (NBN) will be a key enabler for telework, enhancing links between the traditional workplace and a teleworker's location of choice.

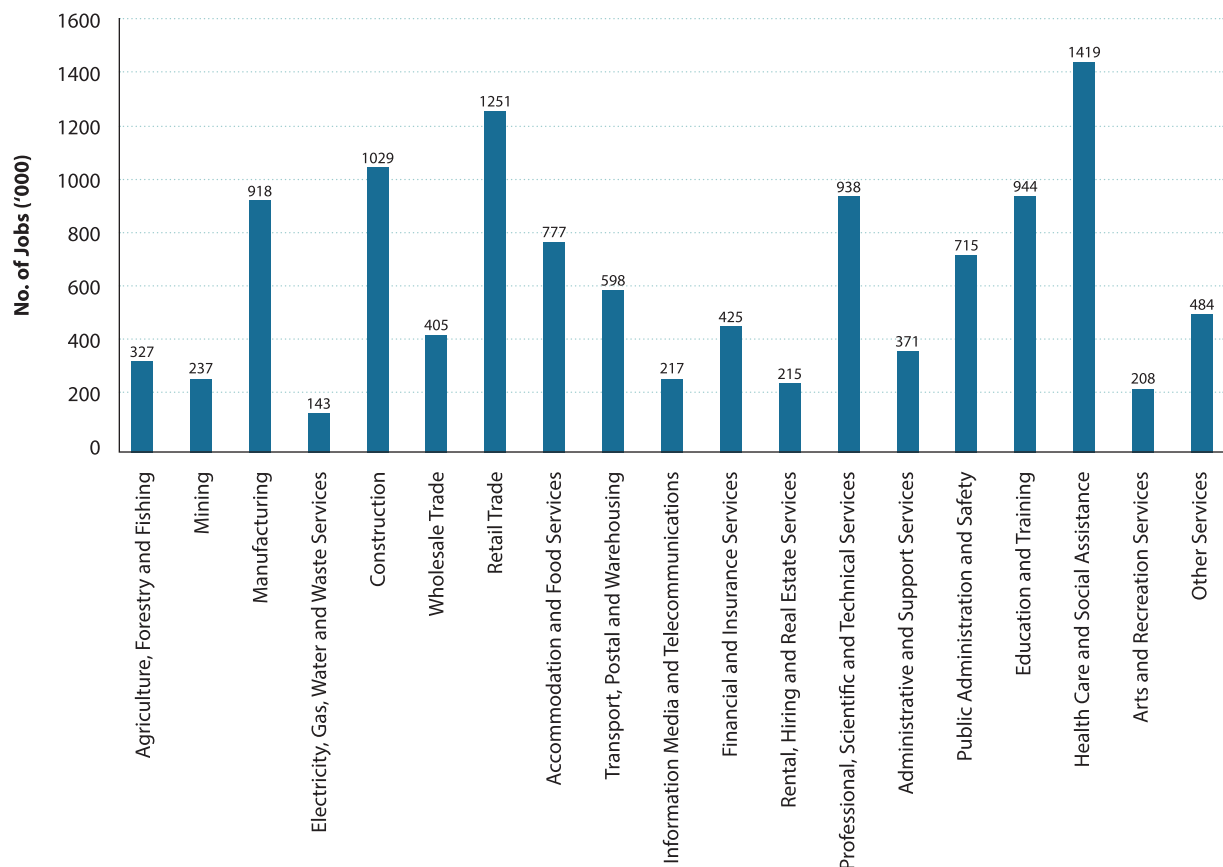
The Draft Report for the Productivity Commission's inquiry into Childcare and Early Childhood Learning, in recognition of the value of flexible working arrangements, has recommended the Fair Work Ombudsman, and employer and employee associations, trial innovative approaches to increase the awareness of flexible working arrangements and promote positive attitudes to employers, employees and the community about taking advantage of flexible working arrangements.

## Employment by Industry

Figure 12 highlights the current employment by industry (seasonally adjusted from August 2014). The industries that employed the most people as of August 2014 were Health Care and Social Assistance, Retail Trade, Construction, Education and Training, Professional, Scientific and Technical Services and Manufacturing.

While some industries are shrinking, such as manufacturing, they are and will continue to employ a large portion of the labour market.

Figure 12: Employment by Industry August 2014 ('000)

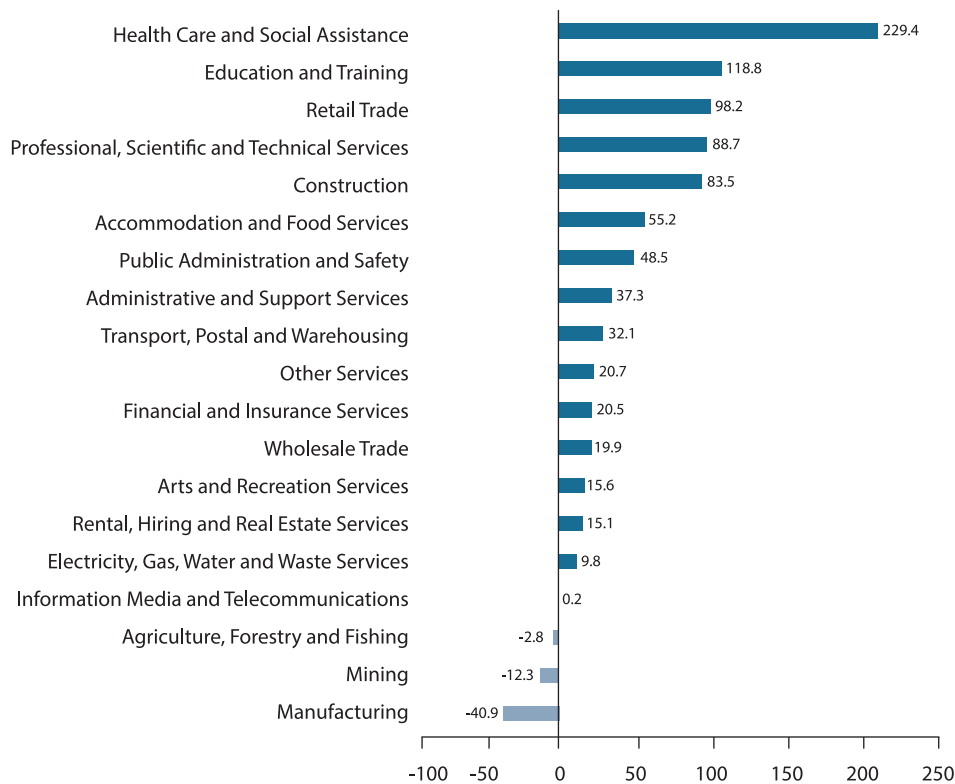


Source: Australian Bureau of Statistics (Cat 6291.0)

## Growing Industries

As identified in Figure 13, from 2013–18, employment is projected to increase in 16 of the 19 broad industry groups. Figure 13 highlights the number of jobs that are expected by industry from November 2013–18.

Figure 13: Projected employment growth by industry—2013–18 ('000)



Source: Employment Outlook to November 2018, Department of Employment

Health Care and Social Assistance is projected to make the largest contribution to employment growth (up by 229,400 or 16.3 per cent), followed by Education and Training (118,800 or 13.3 per cent), Retail Trade (98,200 or 7.8 per cent), Professional, Scientific and Technical Services (88,700 or 9.9 per cent) and Construction (83,500 or 8.0 per cent). Against this, declines are expected in Manufacturing (down 40,300 or 4.3 per cent), Mining (12,300 or 4.5 per cent) and Agriculture, Forestry and Fishing (2,800 or 0.9 per cent).

Groups disadvantaged in the labour market, such as people with disability, mental health conditions, young people and mature aged job seekers, will benefit from employment growth in these industries. As detailed below under Top Occupations by Industry and Skill Level, a number of these industries have different qualification requirements, meaning groups with varying capability to undertake more training will have job opportunities.

There is potential for government to harness jobs growth in the Health Care and Social Assistance sector to create skills pathways and opportunities for jobseekers. Civil society organisations are increasingly delivering services on a commercial basis while also working towards social goals. Through the use of incentive schemes and government co contributions, these not-for-profit organisations will make up an important component of the jobs of the future. There is a need for a concerted effort from government to ensure that funding for training reflects this growing jobs market.

In the community services and health industries, for example, hundreds of thousands of jobs are expected to be created. A large proportion of this industry's service providers – and suppliers of aged, disability, child and health care – are not for profit social mission driven organisations. These are well regulated industries offering many entry level jobs in supportive and caring environments.

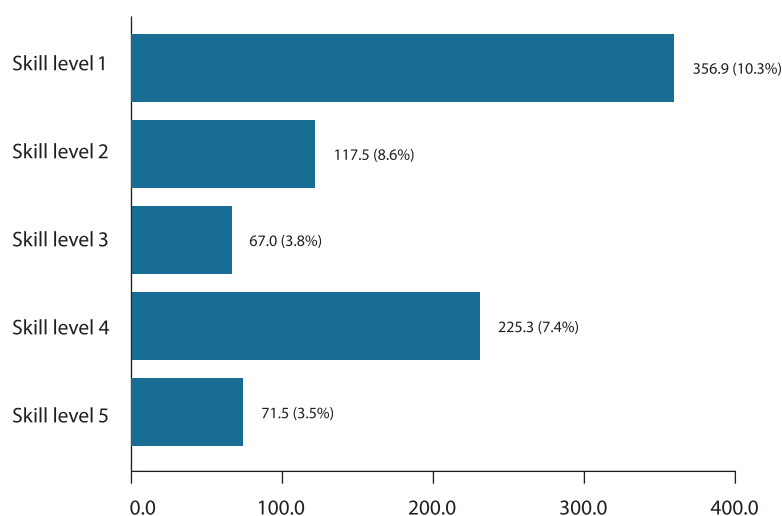
## Employment Growth by Skill Level

Higher education and training levels support improved employment prospects for job seekers. The Australian Bureau of Statistics classifies occupations according to five levels, commensurate with the following qualification(s):

- skill level 1: Bachelor degree or higher qualification
- skill level 2: Advanced Diploma or Diploma
- skill level 3: Certificate IV or III (including at least two years on the job training)
- skill level 4: Certificate II or III
- skill level 5: Certificate I or secondary education.

Figure 14 highlights anticipated jobs growth to November 2018 by skill level classifications. This further highlights the importance of education and training to increase employment opportunities:

Figure 14: Growth of jobs to November 2018 by skill level – ('000)



Source: Employment Outlook to November 2018, Department of Employment

As per Figure 14, employment for Skill level 1 is projected to increase strongly by 356,900 (or 10.3 per cent) over the five years to November 2018. Skill level 2 is projected to grow by 117,500 (or 8.6 per cent).

Employment growth is projected to be weaker for Skill level 5 (up by 71,500 or 3.5 per cent) and Skill level 3 (67,000 or just 3.8 per cent), in line with their declining shares of total employment. The weaker employment growth for Skill level 5 suggests there will be a reduced growth in entry level positions, which could be a challenge in supporting some people into employment. However, employment for Skill level 4 is projected to increase by 225,300 (or 7.4 per cent) over the five years to November 2018, providing opportunities for job seekers who have lower skill levels, or who may have the capability to acquire skills at this level.

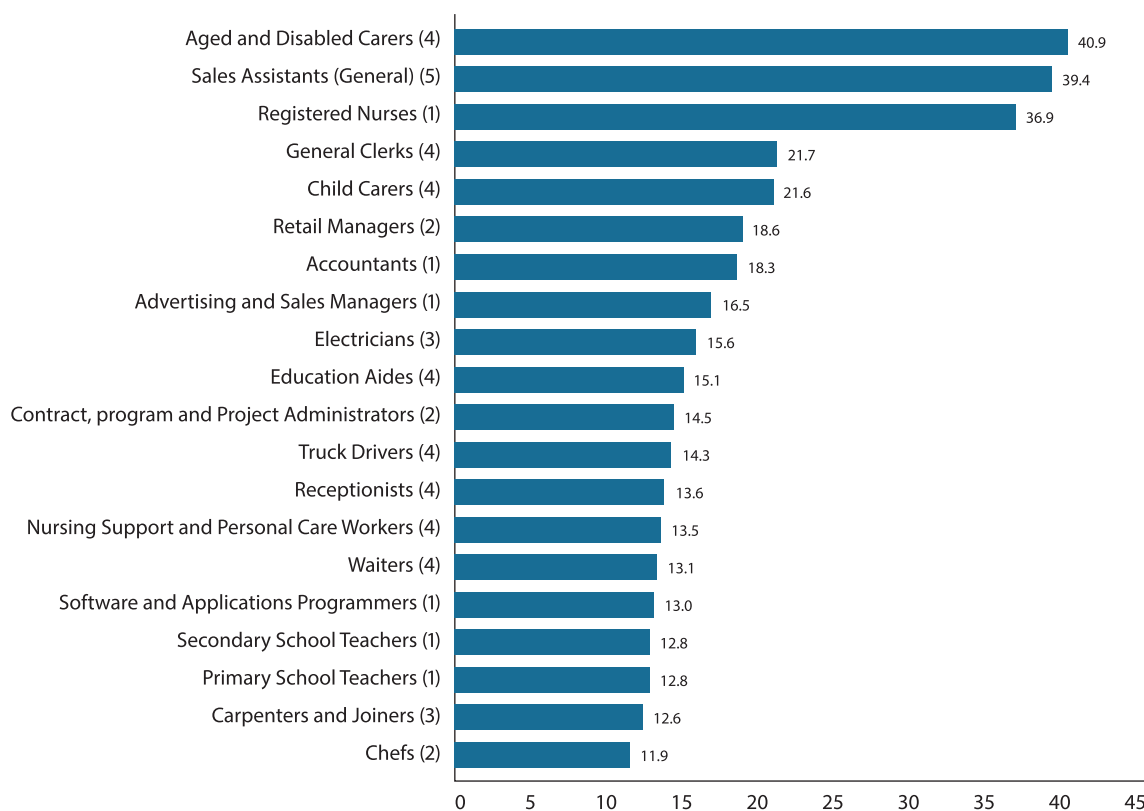
Reports by the National Centre for Vocational Education Research (NCVER) also highlight that the gap is widening between knowledge generated through Australia's training system and the skills demanded by employers.

## Top Occupations by Skill Level

Figure 15 shows the 20 occupations that will contribute the most to employment growth over the five years to November 2018. Aged and Disabled Carers are projected to record the largest increase (up by 40,900 or 32.2 per cent), with growth expected to be supported by the ageing population, higher demand for community and home based care services and the implementation of the National Disability Insurance Scheme. Research into the labour market for Personal Care Workers (primarily Aged and Disabled Carers and Personal Care Assistants) showed that the most commonly sought qualifications were a Certificate III (53 per cent of employers) or Certificate IV (40 per cent).

Strong growth is also projected for other Skill Level 4 (Certificate II and III) occupations, including general clerks (up by 21,700 or 9.8 per cent) and child carers (21,600 or 16.8 per cent). Skill Level 1 occupation areas are also expected to increase significantly, including Registered Nurses (36,900 or 15.4 per cent), Accountants (18,300 or 10.6 per cent) and Advertising and Sales Managers (16,500 or 12.4 per cent). Sales Assistants (General) is the only Skill Level 5 occupation (Certificate I or secondary education) projected to increase by 39,400 (or 7.5 per cent).

Figure 15: Top 20 occupations (with Skill level) – ranked by projected growth to November 2018 ('000)



Source: Employment Outlook to November 2018, Department of Employment



While not all jobs require vocational or higher education, having such qualifications provides people with the skills and knowledge to help them obtain employment. The Australian Bureau of Statistics Job Search Experience Survey shows that in July 2010, 49 per cent of long term unemployed people had not attained Year 12 or above. This compared with 41 per cent of people who were unemployed for less than 12 months and with 24 per cent of those who started their current job in the last 12 months.

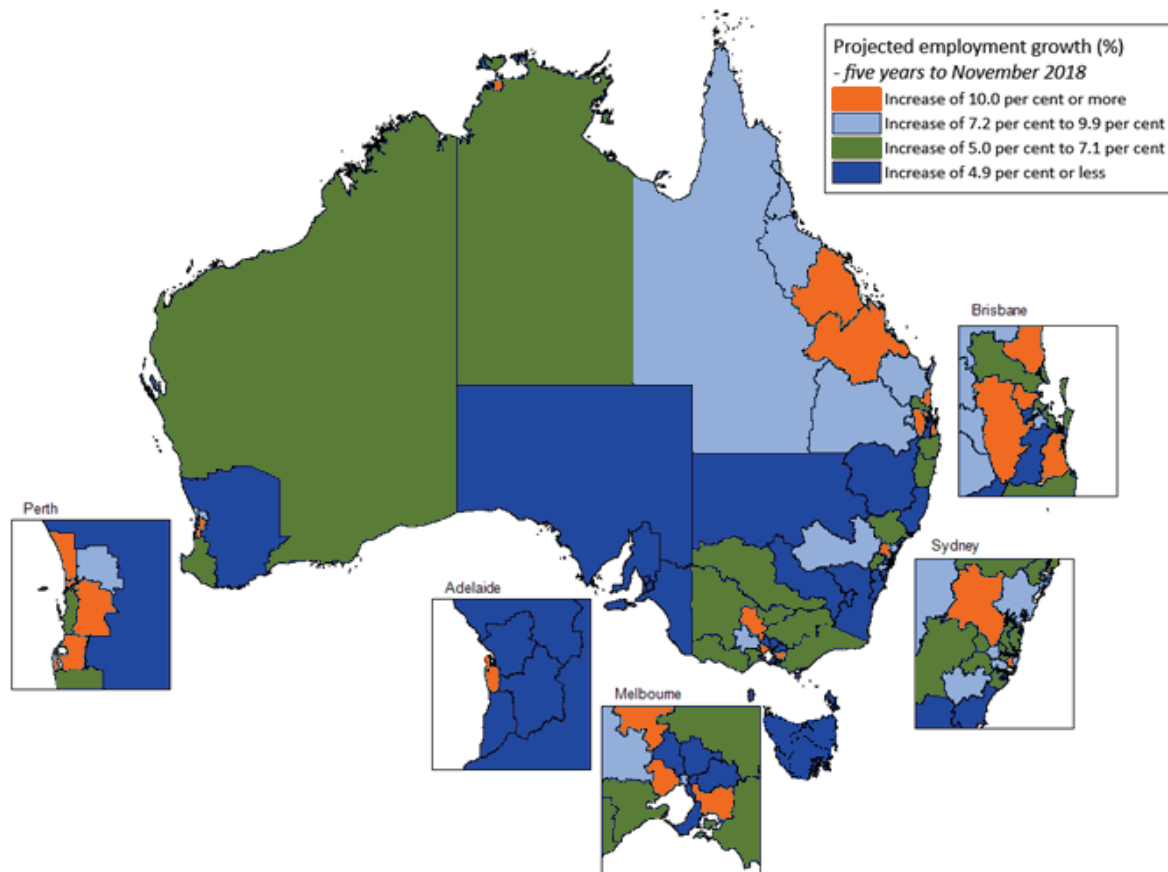
In the new social support system, understanding growing and emerging industries and occupations along with the varying skill level requirements will assist governments and support services to provide training and education linked to job opportunities. Employers will also benefit from drawing on a pool of prospective employees with appropriate skills, including people disadvantaged in the labour market.

Individuals, including people who may only have capacity to work in the future, will also be able to make informed decisions about education and training for jobs in growing and emerging industries.

## Employment Growth by Region and Labour Mobility

Employment growth is projected to increase across all regions of Australia to November 2018. Employment growth in metropolitan areas is projected to increase by 7.6 per cent, while in regional Australia it is projected to increase by 6.7 per cent. Figure 16 highlights employment growth by region.

Figure 16: Projected employment growth by region– five years to November 2018



Source: Employment Outlook to November 2018, Department of Employment

Figure 16 shows projected employment growth or increase, rather than the number of jobs in each region. The statistical regions in Figure 16 were created by the Australian Bureau of Statistics. From Figure 16, it is clear that employment is growing across all regions of Australia, albeit at varying rates.

At the regional level, employment growth as a percentage is projected to be strongest in Sydney City and Inner South (up by 29,400 or 15.5 per cent) and Fitzroy in Queensland (up by 16,200 or 13.9 per cent), while the largest projected increase in employment by numbers is for West Melbourne (up by 42,500 or 12.4 per cent).

The OECD Employment and Skills Strategies in Australia 2014 report found that local employment and training agencies have a key role in contributing to job growth and productivity. Local factors and characteristics impact on local jobs growth and there is a strong requirement for programmes and training for jobs to reflect local labour market conditions.

The location of jobs and employment growth by region varies over time and prospective employees sometimes move in search of these job opportunities. The Productivity Commission's April 2014 report, *Geographic Labour Mobility*, found labour mobility was a key driver of economic efficiency and community wellbeing. In relation to employment, the Productivity Commission highlighted that "[w]hile geographic labour mobility is not a comprehensive solution, reducing impediments to mobility may help to prevent some individuals from becoming long term unemployed".

Advances in transport and communication technologies have broadened the scope of geographic labour mobility. The Productivity Commission has identified that geographic labour mobility can take the form of:

- Residential labour mobility — where people in the labour force relocate their usual residence, to another regional labour market.
- Long distance commuting — regular commutes from a person's place of usual residence to their workplace which exceeds a time or distance threshold.
- Telecommuting — working from a distance, in any location other than the usual workplace. In essence, telecommuting involves moving the job to the worker.

The Productivity Commission found that Australia had high levels of labour mobility which allows for better matching of labour demand and labour supply. However, there is room for improvement, with several labour mobility impediments identified.

The Parliamentary Inquiry into the Development of Northern Australia discussed the issues of matching labour and jobs supply in a changing labour market and the challenges of linking people to future jobs. The Inquiry explores options to develop Northern Australia, particularly through infrastructure development, to act as an incentive to encourage employers and prospective employees to move to Northern Australia.

The Organisation for Economic Co operation and Development (OECD) *Employment Outlook 2014* suggests labour mobility should be promoted to fill job vacancies in high demand areas. Training and work experience is essential to allow workers of all skill levels to move between sectors and jobs. With jobs growth expected to increase in a number of industries, employers will need to consider how labour mobility, including how increased training influences mobility, may impact their industry.

Investment in infrastructure also contributes to enhancing the productivity of the economy and supports employment growth. The *National Stronger Regions Fund* is one such initiative that is part of the Australian Government's infrastructure commitment. Up to \$1 billion in Australian Government funding will upgrade or create new infrastructure over five years commencing 2015–16. Projects selected for funding will deliver employment benefits to the region beyond the period of construction.

## G20 Employment Plans

The need to promote jobs growth was acknowledged by the Australian Government through the September 2014—G20 Labour and Employment Ministerial Declaration. Ministers of labour and employment from G20 member nations agreed that more needed to be done to strengthen national Employment Plans and Policies to reduce unemployment and underemployment.

The G20 is the appropriate forum for developing country Employment Plans targeted at overall employment growth. However, a Jobs Plan for specific disadvantaged groups in Australia to support

them into the labour market with appropriate training linked to jobs can be developed alongside the work of the G20, and in particular the Australian Employment Plan. This is discussed in more detail under the Jobs Plan.

A range of other policy initiatives have taken this approach to support the G20's work. For example, the Australian Government released its *Industry Innovation and Competitiveness Agenda* in October 2014, which will support Australian G20 employment growth strategies. This Agenda aims to provide the right economic incentives to help business to grow, focusing on developing a business friendly environment, a more skilled and flexible labour force, better economic infrastructure and industry policy that fosters innovation and entrepreneurship.

This Agenda includes the *Industry Growth Centres Initiative*, which was developed to improve the productivity and competitiveness of five growth sectors in Australia: Food and Agribusiness; Mining Equipment; Technology and Services; Medical Technologies and Pharmaceuticals; Advanced Manufacturing; and Oil, Gas and Energy Resources. This initiative will provide \$188.5 million in Australian Government funding over four years to enable action on deregulation, enhancing workforce skills, collaboration and increasing commercialisation opportunities across these key industries.

## Recommendation



Investment in training and education should be better targeted to both current and future jobs to ensure people have the best possible opportunity to secure sustainable employment.

## Role of Employers

More employers are recognising the business potential of engaging people outside the mainstream recruitment pool. These employers have an ongoing commitment to diversifying their workforces and have embedded diversity into their recruitment practices.

For many employers, relationships with non government organisations provide support for developing business cases for inclusive recruitment. Large organisations such as Westpac Group, Telstra, Toll, IBM, Woolworths, ANZ and News Corp Australia are among a growing number of companies championing the business case for employing a diverse and inclusive workforce, such as people with disability and mental health conditions.

## Business Case for Diversity

Many businesses recognise the strong business case for supporting diversity in the workplace. Recruitment policies encouraging diversity have a positive effect on a company's reputation and brand, enhance recruitment of talented staff and make a difference in the communities where the company operates.

The Australian Chamber of Commerce and Industry (ACCI) encourages Australian employers to ‘employ outside the box’. That is, to employ people with disability, mature aged workers, Indigenous Australians and women returning to work among other groups. They note a range of benefits including:

- creating a competitive advantage – research shows focusing on diversity is an effective way to become more innovative
- securing a future workforce – the future labour market is likely to be more competitive so diverse employment practices can help overcome skills and labour shortages
- being an employer of choice – diversifying the employment base can help businesses to be seen as employers of choice
- building employee loyalty – employees are likely to respond to opportunities with enthusiastic and loyal service.

Businesses that employ a diverse workforce can gain a competitive edge, as their employee profile may better reflect the diversity of their customer or client base.

Analysis by Innov8 Consulting Group shows that for various studies across indicators of job performance, attendance, safety and insurance costs, people with disability performed consistently better than other workers. For example, a study of 1,000 workers with disabilities by El Du Pont de Nemours found 81 per cent of workers with disability rated better than average for job performance, 86 per cent rated better than average for attendance and 98 per cent rated average or better than average for safety. Insurance costs were also found to be similar to other workers, with no increase in compensation costs or accidents reported.

Workforce diversity also has benefits for the broader Australian economy. Any improvements in the use of available labour are forecast to add significantly to Gross Domestic Product (GDP). As detailed in various reports and in submissions on the Interim Report:

- Closing the gap between male and female participation rates is estimated to increase Australia’s GDP by 13 per cent or \$180 billion.
- Increasing labour market participation rates and reducing unemployment rates for people with and without disabilities by one third would result in a cumulative \$43 billion increase in Australia’s GDP over the next decade in real dollar terms.
- If Australia increases its participation rate to the same level as New Zealand it is estimated this would increase Australia’s GDP per capita by 1.75 per cent.

## Employer Attitudes

Given the business case for diversity in the workplace, overcoming negative employer attitudes to disadvantaged groups has long term benefits for business and positive outcomes for prospective employees from disadvantaged groups. This includes giving people work experience opportunities needed to secure sustainable jobs.

Through submissions and roundtable consultations on the Interim Report, a number of stakeholders highlighted that negative employer attitudes to employing people who are disadvantaged in the labour market—including people with disability, people with mental health conditions, young people, mature aged, long term unemployed and carers—are one of the primary barriers for entering or re entering the workforce, including access to work experience.

The former Australian Workforce and Productivity Agency also highlighted that for youth and mature aged workers employer attitudes are a major barrier to employment. Reports by Wise Employment also show that 57 per cent of small to medium enterprises were not inclined to hire people with mental health conditions, believing their behaviour would be unpredictable and changeable.

It is acknowledged that from an employer's perspective, there can be concerns with employing some groups disadvantaged in the labour market if they do not have the right skills or experience. The Survey of Employers' Recruitment Experiences suggests that the central concern for most employers is recruiting workers who have the characteristics that will make them effective in their business including employability and technical skills and relevant work experience.

## Disability and Employment

People with disability have various challenges to secure and maintain employment. People with disability on the Disability Support Pension do not have an expectation to secure employment. However, in many cases gaining work can substantially improve the quality of life for people with disability.

Many stakeholders, including National Disability Services, detailed in consultations that corporates often outsource hiring to external human resource companies. These companies often provide companies with perceived 'low risk' employees and do not put forward candidates with barriers such as disability. Changing these perceptions can have a positive influence on employment outcomes for people with disability and the businesses who employ them.

Employees and prospective employees with disability who are engaged in work, or who would like to be engaged in work, can benefit from workplace strategies that provide support to allow them to become productive workers.

## Mental Health and Employment

In Australia, the largest group of people receiving the Disability Support Pension are people with mental health conditions (31.2 per cent in 2013). In addition, more than 12 per cent of people receiving Newstart Allowance have diagnosed mental health conditions. Gaining work can substantially improve the quality of life for people with mental health conditions.

Employees and prospective employees with mental health conditions can benefit from workplace strategies that address their condition, allowing them to become productive workers. The 2013 National Mental Health Commission's report—Review on Mentally Healthy Workplaces, concluded that these workplace strategies are worth pursuing for the benefit of individuals and organisations.

The Black Dog Institute hosts the Workplace Mental Health Research Programme with the aim to quantify, evaluate and understand the links between work and mental health. The Black Dog Institute also provides resources for organisations on strategies to build organisational capacity to support employers and employees to improve mental health in the workplace.

Sane Australia supports the Mindful Employer initiative, which provides resources, tools and training for organisations on managing mental health related issues in the workplace. Other organisations, including BeyondBlue, Black Dog Institute and the Recruitment and Consulting Services Association of Australia and New Zealand provide resources and tools for organisations to support people with mental health conditions.

## Mentally Healthy Workplace Alliance

Despite progress made to date, Mental Health Australia (formerly known as the Mental Health Council of Australia) notes people with disability still face major barriers to participation, including experiences of stigma and discrimination. As highlighted below by the Mentally Healthy Workplace Alliance, there are a number of initiatives aimed at addressing these barriers.

The Mentally Healthy Workplace Alliance was formed by a wide variety of like minded organisations committed to working with businesses to create mentally healthy workplaces. Founding members include the Mental Health Australia, the Business Council of Australia, ACCI and the University of New South Wales.

The Alliance has provided practical guidance for employers to create workplaces where mental health conditions are better understood and managed. Mentally healthy workplaces promote a positive workplace culture, minimise workplace risks related to mental health, support people with mental health conditions and prevent discrimination.

To do this, the Alliance made an open call for businesses to share their experiences, initiated research by the University of New South Wales into evidence based actions that contribute to creating mentally healthy workplaces, and commissioned a report by PricewaterhouseCoopers (PwC) on the return on investment for creating mentally healthy workplaces.

The PwC report indicates that the average Return on Investment (ROI) across all industries and actions for investing in a mental health initiative in the workplace is 2.3. In other words, for every dollar spent on successfully implementing an appropriate mental health initiative, there is on average \$2.30 in benefits for the business concerned. The ROI is even higher in particular industries such as mining where the ROI is at least of 15 and for small essential service providers which would receive an average ROI of 14.5.

Stemming from this report, the Mentally Healthy Workplace Alliance combined with BeyondBlue to launch HeadsUp, a campaign to give both big and small business practical advice about the importance of mental health in the workplace. This campaign centres on the business case for the creation of mentally healthy workplaces and its website provides a variety of resources to do this.

## Employment Models

Employment models are initiatives driven by industry and employers to support them to meet their workplace demands. In addition to specific employment services and mainstream services, there are a range of models and partnerships that support disadvantaged groups into employment. This includes people with disability, Indigenous Australians and young people.

In the new social support system, successful models and initiatives such as those detailed below, should continue to ensure disadvantaged groups are supported in achieving employment outcomes. Many of these initiatives involve close partnerships with industry, government, community sector and prospective employees to achieve lasting employment outcomes.

There are various employer action plans in the workplace to address disadvantage. An example is Reconciliation Action Plans, which specifically address Indigenous employment.

## Employment Covenants

An employment covenant is an agreement where businesses come together and commit to employing people with a particular set of characteristics or background. A covenant is one of the ways, when combined with appropriate support services that facilitate businesses to employ people from disadvantaged backgrounds. A covenant works as participants have a vision for change which includes an understanding of the problem and a joint approach to solving it.

The actions of the parties are coordinated and the training provided is individualised and specifically tailored to the jobs that are pledged.

An example is the Australian Employment Covenant, which began in 2008 as a national industry led initiative to secure 50,000 sustainable jobs for Indigenous Australians. Through this initiative, more than 335 employers are now committed to roll out more than 60,000 job opportunities to Indigenous Australians right across Australia. At the end of January 2014 over 18,000 jobs committed had been filled by employers.

While the effectiveness of covenants as a way to increase the number of jobs for disadvantaged groups was questioned in some submissions, the ACCI has stated that covenants have a place in providing leadership.

Employment covenants require the right services and supports to be place to appropriately match employees and employers, as well as to improve the skill set of prospective employees to these skills required by employers. There is a key role in covenants for other support services, such as employment services, to help support linkages and the connection of job seeker supply to new employer demand.

## Disability Action Plans

Disability Action Plans are strategies to help employers change their business practices to better engage people with disability. It is a voluntary agreement that demonstrates commitment to improving employment opportunities for people with disability and the accessibility of business premises and/or shopfronts, to enable customers with disability to enjoy equal access.

Disability Action Plans are promoted by the Australian Network on Disability, a not for profit organisation resourced by its members to advance the inclusion of people with disability in all aspects of business.

Westpac, a member of the Australian Network on Disability, developed the Westpac 2013 Action Plan. This resulted in the development of Westpac Group's Managers' Guide to Disability in the Workplace, the establishment of an employee action group to champion accessibility in their business, and the piloting of live captioning technology in meetings to enable employees who are deaf or hearing impaired to participate in meetings. Subsequent Disability Action Plans by Westpac built on the success of previous plans and outline how else the organisation can support people with disability in the workplace.

Another example of a Disability Action Plan was developed by Telstra. It was the first major Australian corporation to launch a Disability Action Plan. Between 2009 and 2010, Telstra conducted a comprehensive audit and review of its recruitment and selection processes to ensure it facilitated the recruitment of people with disability.



Telstra also established the Enable initiative for people with disability, as well as those caring for people with disability. This initiative provides education and information, leadership opportunities as well as informal mentoring and networking events. It is an example of how committing to a Disability Action Plan can change barriers to employment for people with disability.

## Industry Initiatives

An example of an industry initiative is *Generation Success*, launched by Woolworths Limited and News Corp Australia. It is aimed at supporting employers to understand the issues of youth unemployment and incorporate measures to support young people in the workplace. *Generation Success* brings many large corporations together, including Leighton Holdings, National Australia Bank, Commonwealth Bank of Australia, Toll Group, Spotless, Telstra and Qantas.

This initiative explores ways young people can be supported to make a strong contribution in different workplaces. The process includes consultations with corporate leaders and young people. This develops a better understanding of the issues and needs of employers developing recruitment and training practices that effectively support young people to make a valued contribution in the workplace.

The tools developed include guides to support young job seekers in securing and maintaining employment, resources for employers to find young people with the right skills, tools to support employers to recruit young people and ways parents and educators can support young people into work. *Generation Success* also includes a website for young people that provides information on their work rights, developing skill sets, practice interview questions and workplace safety issues.

## International Models

In a 2010 review of the employment practices of 25 global companies, the International Labour Organization (ILO) found several approaches to disability inclusion in business activities. These include practices related to the company's internal operation, such as policy statements related to non discrimination, practices related to the hiring and retention of people with disability, such as recruitment policy changes, and practices to partner and collaborate with others to create an inclusive workplace.

The ILO identified (through the companies surveyed) a range of good practices for employing people with disability, which included:

- employee disability networks
- disability awareness training for management and co-workers
- specific recruitment or community outreach techniques and programmes
- internships, training programmes and mentoring or leadership programmes specifically oriented to those with disabilities
- allocation of designated human resource or management staff trained or knowledgeable about work-related disability issues.

## Better Support for Employers

Employers need encouragement and support to employ people disadvantaged in the labour market. It is important to focus on the needs of the employer along with the job seeker so long term sustainable employment outcomes are achieved.

In the new social support system that promotes workforce participation for people currently disadvantaged in the labour market, such as people with disability, employers may need support to provide them with real and meaningful jobs. While supports are needed to assist people on the pathway to employment, it is also important to support the needs of employers.

## What Employers Want

Employers require employees who are skilled, or have the potential to learn the required skills to fulfil the obligations of a role. To achieve this, employees typically need a range of foundational skills that are common in many positions, including foundational skills such as basic literacy and numeracy. Employers also value work experience, both through volunteering and paid work, as this experience gives them confidence that prospective employees understand the expectations of a workplace environment.

Employers want employees who can be a long term asset to their company. Support services should assist employees to gain the skills to make an ongoing contribution in the workplace. Further detail on support services that assist the employer are provided at Assistance for Employers.

## Better Jobs and Skills Matching

Providing employers with job seekers who have the skills for the job is important. Small and medium size businesses in particular require prospective employees, referred to them by employment providers, to have the right employability skills, work experience, interests and attitudes.

An effective approach to assessing the needs and abilities of job seekers, to ensure they receive the appropriate services, is fundamental to preparing job seekers for employment opportunities. The need for improved upfront assessments was raised by customers and stakeholders in consultations with the Reference Group. Improved assessments can help ensure that individuals referred to the right services.

Ensuring effective assessment of job seekers is important for both the prospective employer and employee. Better assessment would ensure better job matching and a sustainable employment outcome.

## Employment Services and a New Income Support System

The Australian Government funds a range of employment services that supports individuals to find employment by providing training and education linked to available jobs. There are mainstream employment providers and disability employment services. For Indigenous people and remote communities there is also the Jobs, Land and Economy Stream within the Indigenous Advancement Strategy and the Remote Jobs and Communities Programme.

## Employment Providers

Employment Providers (replacing Job Services Australia from July 2015) is the Australian Government mainstream employment service system, which provides job seekers with individualised support to help overcome vocational and non vocational barriers to obtaining sustainable employment.

The Organisation for Economic Co operation and Development (OECD) in 2012 noted that the Australian system of contracted employment services was highly regarded internationally and credited with helping Australia have one of the highest employment rates in the OECD.

Employment services are undergoing major reforms. To be implemented from 1 July 2015, the reforms aim to increase long term sustainable employment outcomes for job seekers. This will support job seekers to gain more work experience, which is highly valued by employers. These reforms will include tailored training and capability building activities for job seekers that more closely consider the needs of employers. Genuinely tailored interventions are critical to enabling job seekers achieve successful job outcomes. By ensuring training activities reflect employer needs, employers can expect job seekers to have the skills, experience and attributes needed to make an ongoing and valued contribution in the workplace.

Sustained employment outcomes are most valued under the Employment Services reforms. Employment Providers will have an increased proportion of milestone payments attached to the achievement of 26 week employment outcomes. In addition, 70 per cent of performance is based on 26 week employment outcomes compared with less than 40 per cent under the current model. Under the reforms, there will be reduced focus on process, and an increased focus on outcomes, particularly at the 26 week employment outcome period.

Employers create jobs. The new Employment Services 2015 model is focused on job seekers better meeting the needs of employers. Outcome payments will form a significant portion of Employment Provider income. This will mean that Employment Providers will have to work with employers to find jobs, ensure that job seekers have the skills and attributes employers demand for the jobs they have, and ensure that employers and job seekers are supported to achieve sustainable employment outcomes.

In the consultation process, stakeholders highlighted that employment services were not well known or were poorly understood amongst employers. Greater awareness of these services would ensure greater numbers of available placements for job seekers and more effective job matching and placement. Awareness of services available and the ongoing role of employment providers during and after job placement also varied.

With the increased focus on longer term employment outcomes in the system, further work needs to be done to market and raise awareness that Employment Providers are a good source for employers to find the right employees for real and long term positions.

A new social support system that focuses investment on capability building to achieve employment outcomes aligns with the reform directions for employment services.

## Disability Employment Services

Disability Employment Services (DES) is the Australian Government's specialist employment programme assisting people with disability. Providers have a specialist role in assisting people with

disability, injury or health conditions to secure and maintain sustainable employment. Providers have the flexibility to ensure services are tailored to the individual needs of job seekers.

The introduction of DES in 2010 placed significantly more weight on outcomes than the programmes it replaced. The funding structure was simplified. Fees were weighted strongly toward incentivising sustainable long term employment outcomes, while recognising that DES providers require reasonable service fees to either directly deliver or purchase services to remove vocational and non vocational employment barriers.

The DES service fees also recognise that DES providers do not have access to an Employment Fund as do other Employment Providers. The service fees in DES Disability Management Service (DMS) are higher during the first six months because the sector consider people entering DMS are often people whose disability, injury or health condition is not stable or has recently been diagnosed, resulting in the need to provide more services immediately (e.g. functional capacity assessments, physiotherapy).

For future iterations of the programme from March 2018, the model should be aligned to the achievement of long term employment outcomes under the new social support system.

In the meantime, given that a new support system will place additional emphasis on the achievement of long term employment outcomes, further work should be done on how some DES providers can reframe themselves as employment focused providers, instead of disability focused providers, to deliver the best job outcomes. This was raised by stakeholders during the consultation process.

While clients of DES providers can choose to access Employment Providers, there should be more effective linking between the two types of providers. This is particularly important for many DES clients that have difficulty in finding meaningful work that matches their skill levels because mainstream employment services often have access to a greater diversity of jobs, including skilled positions.

## Assistance for Employers

Employers can benefit from supports both in the engagement of people from disadvantaged groups and in ensuring that they are able to maintain the employment over time.

Support is needed at both the job placement and post placement stages. The placement and post placement initiatives detailed in this chapter all provide support aimed at giving employers the tools to employ people disadvantaged in the labour market, influence employer attitudes toward disadvantaged groups and provide support to the employee to increase the likelihood of long term employment. Support for employers is needed to attract suitable candidates, assist them with training, provide mentoring and support and retain employees.

During the consultation process, many stakeholders commented on the importance of ongoing support to disadvantaged groups after the commencement of a new job, apprenticeship or traineeship. For instance, the Brotherhood of St Laurence noted the importance of pre placement training, placement mentoring and pastoral care as well as post placement support in sustaining employment outcomes. Similarly, the National Employment Services Association (NESA) noted the benefits to ongoing support and cited the Personal Helpers and Mentors (PHaMs) programme as an example of a good practice model.

The high level of support provided to employers in models such as Individual Placement and Support enable employers to work with people with serious and persistent mental health conditions.

In the new social support system, DES, Employment Providers and placement and post placement support initiatives should continue or be expanded to support employers and create pathways to sustainable employment for prospective employees.

## Placement Support

### Employment Assistance Fund

The Employment Assistance Fund is for employers and workers with a disability to meet the costs of workplace adjustments needed to address or accommodate disability. Assistance is available for people who are about to start a job or who are currently working as well as those who require assistance to find and prepare for work. The Fund may reimburse the cost of work related modifications and services including, awareness training, Auslan interpreting and/or specialist services.

### The National Disability Insurance Scheme (NDIS)

The National Disability Insurance Scheme (NDIS) will support many people with disability to engage with employment. While reasonable adjustments, employment specific aids and ongoing support will still be funded by employers and employment services, the NDIS will offer supports beyond this.

Supports include funding for personal care, transport and assistive technology devices including wheelchairs, personal communication devices and hearing aids. The NDIS will also assist participants who are not eligible for DES or Employment Providers – due to support being needed beyond the requirements of employment services – to build their skills and capacity in employment and assistance to find and maintain employment.

### Wage Subsidies

Wage subsidies can provide an incentive to employers to recruit and support people with barriers to employment, for example people with disability and mental health conditions or young people at risk.

The subsidies are designed to reduce the costs to the employer of a person transitioning to mainstream employment, including initial training and wage expenses or other employment costs.

Evaluations of employment outcomes achieved through wage subsidies for disadvantaged groups have also shown that, while some groups of participants benefited more than others, wage subsidies reduced the amount of days in a year that participants received income support and increased the proportion of participants who remained off income support after 12 months. They do not necessarily equate to new jobs and employers will sometimes only keep employees on until the wage subsidy ends, increasing the risk of ‘churn’ through the system. Evaluations also show that appropriate targeting is required to minimise paying wage subsidies for job placements that would have occurred anyway.

In consultations, some stakeholders suggested that ongoing support for wage subsidised employees would ensure their employability, especially in small and medium enterprises, over the longer term. Other stakeholders suggested that wage subsidy schemes need to be designed in such

a way as to provide incentives for long term job placement, with the intention that employees will be valuable to the employer even when the wage subsidy period is complete.

Wage subsidy schemes need to be linked with supports for both prospective employees and employers to achieve long term employment outcomes. This will help ensure that employees in the scheme receive sufficient support to be retained by employers after subsidies are no longer available. From July 2015, Employment Providers will be able to provide wage subsidies for those who have been registered with an Employment Provider for over 12 months (6 months for Indigenous Australians). Payments for these subsidies will be made at the 6 month and 12 month points to encourage sustainable employment.

An example of a wage subsidy scheme is the Restart Wage Subsidy for mature job seekers announced in the 2014–15 Federal Budget. This provides payments to employers at six, 12, 18 and 24 months up to a maximum of \$10,000.

As part of roundtable discussions, a number of stakeholders highlighted that they would be more willing to be involved in wage subsidy schemes, if red tape associated with applying for and maintaining the subsidy was reduced.

#### Job Brokers

Job brokers promote and broker jobs by raising employer awareness and commitment to recruiting people from specific groups. Job brokers partner with large Australian employers to provide advice and build knowledge and understanding of employers to give them the confidence to employ the disadvantaged groups they represent.

The National Disability Recruitment Coordinator (NDRC) is an Australian Government funded job broker. The NDRC creates job opportunities for people with disability in large organisations by partnering with employers and helps them raise disability awareness in their organisation and develop specialised strategies for increasing disability employment. This includes working with employers to develop the tools, knowledge and resources needed to increase the number of people with disability they employ.

#### Information Services for Employers

There is a range of services and organisations that provide information to support employers with employing people from diverse backgrounds, including support to make adjustments in the workplace on behalf of the employers. JobAccess, for example, is a one stop shop for all matters related to the employment of people with disability. It is a free service for people with disability, employers and service providers, delivering information and advice via phone and website, and coordinating adjustments in the workplace.

The JobAccess website has a comprehensive range of information about different disabilities and workplace solutions and adjustments. It includes step by step guides and checklists on recruitment, job searching, adjusting a workplace, employer incentives, understanding rights and responsibilities at work and much more. There is also an online Workplace Adjustment Tool that provides practical ideas for workplace modifications to assist people with disability to overcome barriers within the workplace.

The Australian Human Resource Institute (AHRI) is the national association representing human resources and people management. This organisation provides advice to employers on people management practices and the allocation of diverse human resources to the right jobs. Members

of the organisation have access to online resource centres to provide support at all stages of the employment cycle. The organisation assists employers to work with people from diverse backgrounds to support them in long term employment.

Similarly, the Diversity Council of Australia is a workplace diversity advisor to businesses that offers expertise in employing people from diverse backgrounds. This includes raising awareness of the issues facing different groups, supporting employers to improve diversity policies and promoting the business case for diversity. The Australian Network on Disability (AND) also provides advice to employers on how to support people from diverse backgrounds in the workforce, with a particular focus on people with disability.

### Vocational Education and Training

It is important there is an industry led approach to Vocational Education and Training (VET) to enable businesses to obtain the workers they need and to assist Australians to find and keep a stable job in the real economy.

A reform taskforce was established by the Australian Government in November 2013 to deliver a new VET system that is nationally consistent and coherent, responsive to individual, industry and community needs and recognised as providing quality outcomes. This taskforce has been working with state and territory governments, Registered Training Organisations, industry groups, employers and other stakeholders.

On 13 May 2014, the Australian Government announced the establishment of a new \$476 million Industry Skills Fund. This Fund will streamline training and better position Australian industry to succeed in a rapidly changing global economy by supporting the skilling needs of its workforce. Funding for up to 200,000 training places and support services over four years will be provided. The Fund commences on 1 January 2015 and will prioritise small to medium enterprises, including micro businesses as they remain especially vulnerable to changes in the competitive environment.

Through September and October 2014, a range of changes to the VET system were announced to improve the quality and focus of training. The proposed new model is to create a skills and training system focused on the needs of industry and aims to provide training linked to areas with job shortages.

VET in Schools (VETiS) programmes provide a pathway from school to work by providing credit for students towards a nationally recognised VET qualification. As part of VET reforms, the VETiS Framework will be updated and presented to the Education Council in December 2014.

A new Australian Apprenticeships Support Network will commence from 1 July 2015 to help ensure employers and apprentices make well informed decisions and remain engaged in the apprenticeship relationship to completion. This Network is critical to increasing completion rates of apprenticeships from their low rate of around 50 per cent. It will deliver targeted advice and support at the appropriate time and through all points of the apprenticeship cycle, from pre commencement to completion. Individual case management and mentoring services will be available for those at risk of not completing the apprenticeship arrangement.



## Post Placement Support

### Disability Awareness Training

Disability awareness training helps to ensure employers and employees understand the needs and abilities of employees with disabilities, and supports employers to work effectively and confidently with people with disability. It also offers an opportunity to canvass strategies for establishing a disability friendly workplace.

Various organisations and programmes such as Disability Employment Australia, National Disability Services and JobAccess are able to assist with identifying disability awareness courses though there is no standard training syllabus. An example of an employer training initiative that improves awareness of working with people with mental health conditions is the Mental Health First Aid Certificate.

### Mentoring

Mentoring provides additional support for job seekers who lack work experience or employment networks, and for employers to gain the skills to employ people from diverse backgrounds. Mentors can share their experiences and provide guidance on job searching, marketing skills or skill development that may improve employment prospects. Disability Employment Services also have a role providing ongoing support and career development advice to employees with disability.

Mentoring also provides opportunities to raise awareness and assist employers to understand the experiences of people facing disadvantage, including people with disability. By raising awareness and understanding, mentoring can assist in tackling workplace attitudes towards disadvantaged groups, supporting organisations to promote cultural changes from the top down and become role models for other businesses. Mentoring can include external mentors entering the workplace to help new employees and can include training for staff to be mentors within the workplace.

Positive Action towards Career Engagement (PACE), developed by the Australian Network on Disability, facilitates opportunities for people with disability to develop their skills and confidence, to assist them in their job search and personal development. The aim is to give students and job seekers a range of skills, experience and advice about the workforce as well as providing mentors with a rewarding experience.

The Personal Helpers and Mentors (PHaMs) employment services are specialist services that assist people whose lives are severely affected by mental health conditions and in receipt of income support to address personal barriers to achieving their employment and training goals. Services work closely with Government employment services. PHaMs addresses non vocational barriers to employment. This includes facilitating peer support networks and activities.

The Australian Indigenous Mentoring Experience (AIME) supports Indigenous students with the transition to further training or employment. AIME provides mentoring and support to Indigenous students, linking students with training courses and employers to ensure a positive transition between education and employment.



## Pathways from Study to Work

Young people are increasingly disadvantaged in the labour market. Since the 2008 Global Financial Crisis, the Economic and Market Development Advisors (EDMA) have reported that younger workers (teenagers and young adults) have the lowest employment growth, due primarily to being the least experienced and skilled compared with other age groups.

The move from school to higher education, training or employment is a critical pathway that needs to be managed to achieve ongoing employment and to avoid dependence on income support. Employers have a key role to help young people make the transition from school to work.

Many programmes or initiatives successfully support the pathway from study to work. These programmes generally employ a common set of principles to achieve positive outcomes. These principles include establishing relationships between employers, community and business, providing support to individuals, and ensuring there is a clear line of sight from education, training or work experience, to employment.

Examples of programmes that have had success in linking training to jobs and incorporating these principles are as follows:

- **Work Inspiration**—Work Inspiration was founded by the Foundation for Young Australians, The Smith Family and National Australia Bank. It is a business led initiative that provides a flexible tool kit for employers to introduce young people to the workforce and make work experience more worthwhile. The programme highlights career pathways by showing Work Inspiration participants the different elements of the business and introducing them to employees who can provide insights about their career journeys.

It is different from more traditional work experience programmes in that it provides a flexible tool kit for employers, is usually short term (between two and five days), is cost effective and inspires young people to align their education choices to current industry needs. To date, over 2,300 Work Inspiration placements have been pledged by businesses across Australia. Programmes like this are critical to establishing early links between school age Australians and businesses and managing the transition from school to work.

- **Beacon**—The Beacon Model supports young people to develop a positive pathway from school to work by linking with schools, the communities, and businesses. The Beacon models works within schools to ensure young people are either earning or learning at vulnerable transition points in their lives. Beacon's 2013 Annual Report notes that Beacon has worked with 132 schools in Australia and over 100,000 students. Schools where Beacon operates have higher retention, employment and participation rates than the national rate. For instance, over 98 per cent of Beacon students were fully engaged in work, education or training nine months after completing year 10, which is 11.6 per cent higher than the national average for 16 to 17 year olds from low socioeconomic status communities.

## Recommendations



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Promote initiatives that support pathways from school to work through establishing relationships between employers, community and business, based on the principles of successful models.  
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.....  
Promote wage subsidy schemes to provide incentives for small to medium sized enterprises to encourage recruitment of people with disability and mental health conditions for up to twelve months.  
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.....  
Employment Providers and Disability Employment Services Providers achieve better jobs and skills matching.  
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.....  
Improve the assessment and referral arrangements for jobseekers to ensure that there are stronger linkages between Centrelink and employment services to ensure better employment outcomes.  
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.....  
Ensure there are placement and post placement support services for people with disability and mental health conditions, including disability awareness training, mentoring and employer support based on the principles of successful existing models.  
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## Jobs Plan

### Context

During consultations numerous stakeholders highlighted the challenges facing disadvantaged groups in finding sustainable employment. The need for a Jobs Plan was a strong theme in consultations. The employment initiatives or Jobs Plans highlighted by stakeholders varied in terms of target groups, governance and initiatives. There was support for employment initiatives to provide tailored support to groups disadvantaged in the labour market.

The Australian investment approach, outlined in Pillar Two, will provide greater clarity regarding the groups disadvantaged in the labour market and initiatives to support them into jobs.

The characteristics of identified groups at risk of poor employment outcomes would inform the development of any Jobs Plan. They include:

- people with disability and/or mental health conditions
- young people with low educational attainment
- mature aged people attempting to re enter the workforce
- women with low educational attainment or caring responsibilities
- Indigenous Australians, particularly from remote or regional areas.

In the first instance, the Reference Group supports the development of a Jobs Plan for people with disability and mental health conditions. The reform of the income support system will impact people with disability and mental health conditions and additional support is needed for this group to access available jobs.

In 2009, about 54 per cent of people with disability participated in the labour force compared with 83 per cent of people without a disability. In the OECD, Australia ranks 21 of 29 for labour force participation of people with disability.

In addition, between 2009 and 2012 the labour force participation of Australians aged 15 to 64 years remained steady for people with disability (54 per cent in 2009 and 53 per cent in 2012). It is clear that existing policies and programmes are not making a substantial difference in improving labour force participation for this group.

The development of additional Jobs Plans for other disadvantaged groups can follow this first Jobs Plan for people with disability and mental health conditions. It will have the advantage of being developed following the implementation of other reforms including VET reforms, the review of Indigenous jobs programmes, employment services changes and outcomes from the G20 Employment Plans.

### Jobs Plan – People with Disability and Mental Health Conditions

A Jobs Plan for people with disability and mental health conditions is needed to ensure this group has every opportunity to participate in the labour market. A Jobs Plan that considers the views of business, governments at all levels and civil society will ensure a tailored response is provided to this group on the pathway to employment.

The Reference Group supports a consolidated approach to employment for people with disability and mental health conditions through a Jobs Plan. The key components of the Jobs Plan for people with disability and mental health conditions, that could be adapted for various disadvantaged groups, include:

- tailored support services
- awareness raising campaign
- a leaders group
- awards to recognise best practice
- government employment targets
- procurement practices
- an employment covenant
- wage subsidies.

These are discussed in more detail below.

### Tailored Support Services

The support provided as part of a job seeker programme is very important to the participant's success on the pathway to sustainable employment. The relationship with a case manager or other support worker can make a substantial difference to improving social and employment outcomes for people with disability and mental health conditions.

With an increased focus on placing people with disability and mental health conditions into sustainable jobs, additional support is needed for the employee to stay in work. In some cases employers need placement and post placement support. These include specialised assistance for employers to recruit, train and retain employees.

The Individual Placement and Support (IPS) model is an example of an initiative that has a proven approach to working with people with serious and persistent mental health conditions. The model delivers individually tailored support services with an employment focus.

The IPS model provides tailored support, with an employment focus as part of the recovery process. The IPS model works towards goals of recovery by encouraging individuals' strengths and competencies and actively involving them in the design and implementation of programmes.

A service delivery response that is underpinned by the principles of these types of initiatives – that have been evaluated and proven to be successful – should be continued and expanded as part of a Jobs Plan for people with disability and mental health conditions. These initiatives include IPS, PHaMs and the tailored support provided through the NDIS, DES and Employment Providers.

Integrating employment services with mental health treatment is a critical component to the IPS model. This can be with the employment service co located with a mental health service such as headspace, mental health services co located with employment services or an effective partnership between employment and mental health services to ensure a wraparound service.

## Awareness Raising and Education Campaign

There is a strong business case for employing people with disability and mental health conditions as part of a diverse workforce. This has been outlined in 3.1 – Business Case for Diversity. These benefits include creating a competitive edge, securing a future workforce, being an employer of choice and building employee loyalty. Disability employment surveys consistently show that people with disability and mental health conditions rank well on criteria of job performance, attendance, safety and insurance costs.

A national awareness raising and education campaign is required to promote the benefits of employing people with disability and mental health conditions, addressing major attitudinal barriers, educating employers on the business case for diversity and overcoming negative stereotypes of people with disability and mental health conditions. As part of this campaign, there is a need to educate employers of the range of services and supports available to assist them to employ people with disability and mental health conditions.

## Leaders Group

The Australian Government should establish a leaders group, to bring together key leaders in the disability sector, business and government to develop practical strategies to increase employment of people with disability and mental health conditions.

The leaders group would promote good practice employment models, examine trends, encourage innovative solutions, investigate incentives and barriers to employing people with disability and mental health conditions, addressing unnecessary red tape and complement the awareness raising and education campaign.

By working together the skills and resources of business, government and community organisations can help solve the complex problems of employing people with disability and mental health conditions.

## Awards to Recognise Best Practice

Currently the Australian Government supports the National Disability Awards for outstanding achievement of individuals and organisations in improving the lives of people with disability. One award category is the Improving Employment Opportunities Award. To complement these awards, industry led awards should be established to recognise good employment practice by various organisations across different sectors including small and medium enterprises as well as large organisations.

Business leaders and companies should be formally recognised through these awards. This has the benefit of acknowledging the corporate leaders that are achieving good outcomes in employing people with disability and mental health conditions, while providing an opportunity for the business case to be highlighted to other employers.

## Government Employment Targets

The development of aspirational targets for employment of people with disability and mental health conditions should be considered by governments in the employment of people in the public service. The number of people with disability varies significantly across governments and departments.

As an example of targets, the Review of Indigenous Jobs Programs – Creating Parity recommended that federal, state and territory governments each set and enforce public sector Indigenous employment targets of 4 per cent within four years for each portfolio, achieving a minimum of 4 per cent within five years, but with no department employing less than 3 per cent.

A range of other countries in the OECD have adopted targets for people with disability and mental health conditions and have managed to achieve or make significant progress towards these targets.

Employment targets should be established across government for employing people with disability and mental health conditions. This will necessitate more accurate reporting of the current levels of employment of people with disability and mental health conditions across the public service including awareness raising strategies to improve disclosure, and establishing benchmarks from which to set targets which include all employment levels.

## Procurement Practices

Governments and businesses should consider ways to promote procurement from organisations with established records of employing people with disability and mental health conditions.

Procurement policies at the Australian Government level can have a key role in supporting the adoption of similar procurement policies for state, territory and local governments as well as providing business opportunities for organisations that employ people with disability and mental health conditions.

## Employment Covenant

A covenant for people with disability and mental health conditions should be developed in collaboration with industry, government and civil society. The covenant should incorporate the following principles:

- guaranteed jobs
- access to training both on and off the job
- appropriate recruitment and job matching services
- post placement support including mentoring
- employer support.

## Wage Subsidies

The Australian Government should promote improved and streamlined wage subsidies for organisations including small to medium sized enterprises to encourage recruitment of people with disability and mental health conditions for up to twelve months.

## Recommendations



Develop Jobs Plans for groups at risk of poor employment outcomes as identified by the Australian investment approach.



In the first instance, develop a Jobs Plan for people with disability and mental health conditions which includes:

- tailored support services including integrating employment services with mental health services
- an awareness raising and education campaign to promote the benefits of employing people with disability and mental health conditions and the services and supports that are available
- a leaders group to bring together key leaders in the disability sector, business and government to develop practical strategies to increase employment of people with disability and mental health conditions
- industry led awards should be established to recognise good employment practice across different sectors
- setting targets across government for employment of people with disability and mental health conditions across all employment levels
- governments and businesses consider procurement from organisations with established records of employing people with disability and mental health conditions
- a covenant for people with disability and mental health conditions should be developed in collaboration with industry, government and civil society
- promotion of improved and streamlined wage subsidies for organisations, including small to medium enterprises to employ people with disability and mental health conditions for up to twelve months.





## Pillar Four: Building Community Capacity

A new social support system should involve building community capacity to support jobseekers and disadvantaged groups.

- The new social support system should include a role for:
- Civil society to forge partnerships, enhance philanthropy, create investments in a social purpose capital market and support social enterprises and volunteering as a means of providing opportunities for economic and social participation for vulnerable groups.
- Businesses of all sizes to deliver Corporate Social Responsibility and a role for business as an employer and provider of services to support communities, families and individuals through mutuals and co-operatives, social business and micro finance programmes.
- Government to fund services, coordinate infrastructure and create an enabling environment for civil society and business to provide jobs and deliver services to communities, families and individuals.

The use of technology is important to enable and support civil society, business and government in building community capacity and reach out to communities, families and individuals through online services and applications.

### Introduction

A well functioning social support system should work in tandem with strong communities to improve employment and social outcomes for jobseekers and disadvantaged groups. The support services that a new system provides should in particular assist people who are vulnerable and at risk of disadvantage by helping to strengthen their capacity to participate economically and socially.

Community is a fluid concept. It encompasses geographic communities as well as communities of shared interests where people are bound by common beliefs, ethnicity, interests, occupation or other characteristics. It can also refer to a shared sense of community at a national level based on shared social norms or community expectations and standards.

Communities shape people's capabilities by providing an environment where they develop attitudes, aspirations and values. From birth, communities expose young people to role models, community expectations and social connections. Australian and international evidence strongly indicates that the local community environment plays a critical role in lifetime levels of social and economic participation, individual, adult and family wellbeing, and early childhood development outcomes.

An individual's involvement in strong networks and communities provides considerable benefits. These are linked to better health outcomes, higher school retention rates, a feeling of safety and

attitudes of hope in the future for oneself and for children. The presence of strong, positive social networks, stable housing and access to health and social services are all important protective factors for positive outcomes relating to child health and development.

To secure the best outcomes for these individuals, a new system should support communities to build their capacity.

Key principles underpinning effective community capacity approaches include: a focus on community needs; harnessing and building collective capabilities; local solutions; partnerships within community to achieve common goals; community infrastructure; and the achievement of sustainable changes that help individuals and families to become self sustaining and resilient.

A new social support system should be supported by proven principles of building community capacity. In this new system, there are roles to be played by civil society, business and government, both individually and in partnership. There is also an important role for technology to support civil society, business and Government in building community capacity.

## Role of Civil Society

In the new system, civil society has a key role to play in building the capacity of communities to support jobseekers and disadvantaged groups. Civil society includes organisations with a primary focus on a social purpose, whether local, regional or national, voluntary, not for profit or social enterprise. Their purposes include but are not limited to health, social services, education, research, culture, arts, sport, recreation, religion, community development, employment and training, housing, ageing, disability, environment, law and advocacy.

There are around 600,000 civil society organisations in Australia. They mainly operate in education and research (31 per cent), social services (19 per cent) and health and hospitals (18 per cent). In 2012–13, the sector contributed close to \$55 billion to Gross Domestic Product (GDP), received \$107 billion in income and held \$176 billion in assets. These organisations employed around 1.1 million Australians during 2012–13, including 297,000 in the social services area.

Civil society maintains a powerful role in shaping the strength of Australian communities to support individuals and families socially and economically. These bodies form the centre of voluntary engagement and cooperation between individuals, families and groups for the betterment of communities. The role of civil society in assisting vulnerable and disadvantaged individuals and families was a common theme throughout the stakeholder consultation process.

## Partnerships

Individuals and organisations can often achieve more when they work in partnership with each other. This notion of synergy and collaboration underpins the idea of communities. Effective partnerships can be formed between civil society organisations within the community sector. On a broader scale, they can also be forged by civil society organisations working in partnership with business and government.

Partnerships between civil society organisations have a proven track record of building the capacity of communities and the individuals and families who live within them. These partnerships allow organisations and groups to bring together their collective resources and expertise. In doing so, they can achieve greater results than what would have been possible individually.

One example of a highly effective partnership is Foyer Oxford, which adopted the international Foyer Model that was developed overseas. Foyer Oxford arose out of a partnership between Anglicare WA, Foundation Housing and the Central Institute of Technology. It provides accommodation and support services to enable young people to engage socially and economically in their community.

#### Principles of the Foyer Model:

- An early intervention approach to prevent young people becoming long term homeless and shift the emphasis from crisis support to education and support.
- Wraparound services and support that provide young people with fully self contained transitional housing, combined with personalised social supports and opportunities to access employment, education and training.
- Commitment to providing a long term avenue out of homelessness for young people through developing independent living skills, education, training and sustainable employment.
- Focusing on people's strengths and capacities, rather than their problems and deficits and creating an aspirational and positive environment to help young people thrive.

Foyer Oxford is just one of many innovative social partnerships that help build community capacity in Australia. It is an example of how civil society organisations can work together to improve the social and economic outcomes of vulnerable people.

Collaboration can also occur more broadly with business and Government. Such partnerships are often a source of innovation as they draw on the expertise, experience and resources of the broader community. A number of stakeholders identified the importance of these partnerships in building community capacity.

Partnerships between civil society, business and government deliver mutual benefits to all parties involved. Civil society organisations benefit from human resources, expertise and capital. Businesses that recognise their social responsibilities boost staff morale, enhance their reputation and make a difference in their local area. Governments meanwhile reap the benefits of innovation and better social outcomes that arise from these partnerships.

The Prime Minister's Community Business Partnerships has been re established. This Partnership brings together leaders from the business and community sectors to promote philanthropic giving and investment in Australia. Chaired by the Prime Minister, it will advise the Federal Government on practical strategies to foster a culture of philanthropy and volunteering in Australia.

### Priority Areas of the Prime Minister's Community Business Partnership:

Examine the trends and promote best practice in the sector.

- Consider how innovative investment and financing can better support a culture of giving and volunteering in Australia.
- Investigate incentives and barriers to philanthropic giving, so companies, trusts and foundations are not burdened by unnecessary obstacles or red tape; as they try to achieve their objectives.
- Harness the skills and resources of businesses, community organisations and individuals to help solve complex problems and strengthen the social fabric of communities.

## Philanthropy

Philanthropy is a key driver of civil society and is a source of funding for many community initiatives delivered by civil society organisations.

Australian philanthropic giving provides around \$11 billion to civil society per annum. This giving comprises \$8 billion from individuals and \$3 billion from businesses. Philanthropic giving included \$2.2 billion from individuals to Deductible Gift Recipient (DGR) organisations in 2010–11 which increased 12.6 per cent on the previous year. The most recent study of donations as a share of Gross Domestic Product (GDP) found philanthropic giving in Australia to be 0.69 per cent of GDP.

Australia has traditionally recorded high levels of philanthropy. As of February 2014, the average annual donations per donor in Australia were \$315. In the 2010 and 2012 World Giving Index Reports, Australia was ranked the most generous nation in the world. Since 2013 however, its number one ranking has fallen to seventh place. This Report found that the percentage of Australians donating money has fallen from a high of 76 per cent in 2012 to 67 per cent in 2013. Countries leading Australia in donating include the United States, the United Kingdom and Ireland.

The philanthropic landscape is changing. With technology and regulatory change, Australians can make donations to civil society in different ways. Private Ancillary Funds (PAFs) now allow individuals, families and associations to make tax deductible donations to their own charitable foundations. The income earned from the funds invested is in turn distributed to charities or causes in perpetuity for those individuals, families and associations.

### Growth of Private Ancillary Funds (PAFs):

- The distributions made by PAFs increased by over \$42 million from 2008–09 and in 2009–10 were just under \$200 million per annum.
- As of 30 June 2014, there were 1,246 registered PAFs, an increase of 13.5 per cent on the previous 12 months. Currently, PAFs represent around \$4 billion in donated funds.
- Distributions of PAFs to charitable causes hit a record \$252 million in the year to 30 June 2012. The total amount of cumulative distributions to charities (since 2002) was projected to reach \$1.5 billion in the 2013–14 financial year.
- Civil society organisations delivering social support services have received the most support from PAF distributions. These organisations received 28 per cent of PAF distributions in 2012 and have been recipients of 29 per cent of total distributions in previous years.

The rise of technology also has implications for philanthropy in Australia. Social media is making it easier for individuals and organisations to call for donations. As of March 2014, 13.2 million Australians use the social network site Facebook and 12.6 million utilise online media platform YouTube. Using these two websites alone, civil society organisations can reach out to half the Australian population and call for donations to their support services. Users then have an increased liberty to make donations at the click of a button. For example, in the year to June 2013 donations made through online payment tool PayPal increased by 293 per cent.

Technology has also paved the way for crowd funding where individuals or organisations seek financial support from a large number of people. Using popular websites including Change.org, Pozible and MyCause, it is estimated that crowd funding will have injected \$65 billion and 270,000 jobs into the global economy by the end of 2014. The advent of Crowd Funding has channelled important monetary support to charities, entrepreneurs and start up enterprises.

Whether through PAFs, social media donations or crowd funding, new mediums of philanthropy often require regulatory adjustments. The multi billion dollar PAF holdings arose out of legislative amendments that enabled their existence. Meanwhile, the Government is considering crowd funding legislation to make it easier for start ups to raise capital by offering every day investors equity shares. It is important that Government monitor changes in the philanthropic environment and ensure appropriate regulatory changes are made to support philanthropic giving in Australia.

### Social Purpose Capital Market

There is little benefit in increasing philanthropy if funds are not directed effectively. Social Ventures Australia (SVA) argues that although there is money for social purposes in Australia, this money is not always flowing to the right places. Rather than “spray and pray” philanthropy where small chunks of fragmented giving are not directed towards talent, SVA calls for the development of an efficient capital market for social outcomes.

SVA was an anchor partner in the landmark Goodstart transaction. After Australia’s largest childcare provider ABC Learning entered receivership, SVA formed part of the Goodstart syndicate along with the Benevolent Society, Mission Australia and the Brotherhood of St Laurence. Adding to their

own investments and loans from the National Australia Bank and the Australian Government, \$22.5 million was raised from 41 social investors. Goodstart was announced as the preferred bidder and took control of 678 childcare centres offering investors up to a 12 per cent return.

SVA identified four key steps to drive an effective, efficient and sustainable capital market for social purpose:

- The sector needs to change and become more strategic, outcome focused and think longer term.
- Government needs to lead through a willingness to be transparent, adopt hard targets, develop partnership models and allow service providers to be accountable for outcomes.
- Impact investing needs mainstream institutional investors.
- Investments in catalytic philanthropy, that is, funding focused on identifying people, partnerships and organisations with clear evidence of driving positive outcomes and can contribute to systemic change.

In facilitating strategic investments and ensuring clear outcomes, a capital market for social purpose aligns with the Reference Group's recommendation for an Australian investment approach within Pillar Two of this report. The more that private funding is efficiently and effectively directed for social purposes, the more resources are available for building community capacity and addressing entrenched social problems.

## Impact Investing and Social Impact Bonds

The social purpose capital market discussed above will facilitate investments with a social impact. This notion of impact investing is receiving increasing attention in Australia and across the world. It involves developing opportunities for investors seeking to address and solve social and environmental challenges in addition to securing the traditional financial return on investments.

Globally, a G8 Social Impact Investment Taskforce to develop these opportunities was announced by United Kingdom (UK) Prime Minister David Cameron in 2013. Locally, a 2014 report by Impact Investing Australia details a strategy to tackle social issues through impact investing. In supporting the G8 efforts to promote social impact investments, it highlights the need for Australia to better equip social purpose organisations to attract finance.

One growing approach to impact investment can be seen through Social Impact Bonds (SIB). These were raised by a number of stakeholders as an innovative approach to investing in economic and social outcomes. SIBs are an investment model whereby Government pays for agreed social outcomes resulting in a longer term saving to Government. As a result the financial risk of a social issue is transferred from Government to investors.

A SIB involves an intermediary raising money from private investors to fund solutions to a social problem. If the solution achieves the agreed social outcome, the government will pay the investor, via the intermediary, a share of the saving. SIBs facilitate the tapping of private capital for social benefit, enabling government to effectively pay for performance based on quantifiable outcomes. These bonds have the potential to focus service delivery agencies in partnership with investors on driving shared social outcomes.

### Successful Principles for Social Impact Bonds:

- Quantified saving to the government—the savings associated with the outcomes (for example reduction in number of individuals re incarcerated) must be higher than the ongoing cost of delivering the outcome (for example reduction of recidivism) through traditional government measures.
- Clearly defined outcome metrics—an objective mechanism for assessing the degree to which social outcomes are achieved is required to meet the results focused approach of SIBs.
- Controls to mitigate external factors—the specific outcomes must be attributable to the SIB initiative and not dependent on external factors.
- Structured rewards that avoid perverse incentives—outcome metrics and subsequent rewards should adequately address the issue in its entirety, and not just easy quick measurable results.

### International Social Impact Bonds

The first Social Impact Bond, the Social Finance Criminal Justice Trial, was launched in 2010 in the UK at Peterborough Prison. It was developed by Social Finance UK in conjunction with the UK Ministry of Justice. Aimed at reducing the rates criminals re offend, investors received outcome payments on the basis of declines in the rate of re conviction. An evaluation completed in August 2014 found the first cohort of prisoners subject to this SIB have recorded a re conviction rate 8.4 per cent lower than the national average.

The UK is also trialling 10 SIBs to support disadvantaged young people who are unemployed or at risk of becoming unemployed. Investors provide upfront finance through intermediaries to service providers who offer programmes to participating youths. Where a social outcome is achieved and cashable savings are realised, the Government makes a payment to the investors in accordance with the results. Different levels of payment are made according to different outcomes measures for example levels of qualification obtained or length of employment sustained.

The United States of America is also trialling SIBs to reduce the re incarceration of adolescents in New York. In 2012, Goldman Sachs invested \$9.6 million into an SIB supported by a guarantee from Bloomberg Philanthropies. This SIB involves a cognitive therapy programme designed by leading research body Manpower Demonstration Research Corporation for 16–18 year olds in Rikers Island Correctional Facility. Also in the USA, President Obama has made a \$100 million provision in the 2012 USA Federal Budget to facilitate up to seven 'Pay for Success' SIBs, targeted to such programme areas as: workforce development, education, juvenile justice and the care of children with disabilities.

The New Zealand Government is initiating a number of SIBs targeted at better health outcomes. In December 2013, The New Zealand Ministry of Health released a 'Registration of Interest' to explore suitable outcome areas and appropriate service providers to deliver a SIB pilot. In particular, the New Zealand SIBs will have a focus on preventative health initiatives to improve social outcomes.

## Social Impact Bonds in Australia

Social Impact Bonds are also currently being trialled in Australia. The New South Wales Government is conducting three SIB pilots (known as Social Benefit Bonds) in the areas of family support, child safety and recidivism. The NSW Government considers these bonds provide opportunities to focus on outcomes over outputs, offer additional resources towards early intervention, innovation, improve the evidence base of interventions and are conducive to accountability and transparency.

### New South Wales Social Impact Bond Trials:

- Mission Australia has partnered with an intermediary, Social Finance (Australia) to develop a Social Benefit Bond to reduce reoffending rates.
- The Benevolent Society is partnering with Westpac and the Commonwealth Bank to strengthen families and reduce the need for foster care.
- The UnitingCare Children, Young People and Families is supported by Social Ventures Australia to deliver a SIB that expands the existing New Parent and Infant Network (Newpin) programme.

The first of the NSW SIB pilots, the Newpin programme, saw Social Ventures Australia raise \$7 million from investors. This investment has funded four additional Newpin Centres. The first results for the SIB are encouraging with 28 children restored to their families and 10 families supported to prevent their children entering out of home care. As a result of the programme's 60 per cent restoration rate, investors have received an initial interest rate of 7.5 per cent for the first year of the bond.

To date, evaluations of SIBs trialled overseas and in Australia have been promising. The vested interests of the parties in ensuring success has led to innovation and performance. A key benefit of SIBs is the opportunity they provide to 'test and try' a multitude of different approaches. Where these solutions prove effective they could be scaled on a larger level.

Social Impact Bonds will not be able to address all social issues. For many challenging policy areas however, they offer a chance to inspire innovation and transfer some of the risk from Government while developing interventions based on sound research. It is a model that also complements the Australian investment approach recommended by the Reference Group in Pillar Two of this Report.

## Social Enterprises

Social enterprises are defined broadly as organisations led by an economic, social, cultural or environmental mission consistent with a public or community benefit. They can exist as for profit or as non profit entities and derive the bulk of their income from trading activity to fulfil their mission. At present, there are an estimated 20,000 social enterprises in Australia. These entities operate in local and international markets with estimated trading activity of around \$22 billion per annum.

A number of social enterprises exist to provide employment opportunities to disadvantaged Australians. Participation in open employment is the best outcome for many people, but for some gaining work in a social enterprise can be an effective stepping stone towards mainstream jobs. Boystown, for example has used social enterprises to apply an integrated intervention model for marginalised young people. An evaluation of this programme found improved cognitive



motivational outcomes, improvements in a range of psycho social variables and a 56.1 per cent employment, education or training outcome for long term unemployed participants.

The Australian Government is supporting social enterprise development through its Social Enterprise Development and Investment Funds (SEDIF). The funds are designed to improve access to capital for social enterprises to help them grow their operations and in effect increase the positive impact of their work in communities. It has seen the provision of \$20 million in seed grants matched by private investment. Evaluation has identified key lessons in assessment and implementation through the SEDIF process. In general the Fund is regarded as having been positive for social enterprise development in Australia.

Other levels of government are also supporting effective social enterprise initiatives. Social Traders has operated since 2008 with core funding from the Victorian Government. Social Traders provides social enterprises with resources, access to networks, investment and funding opportunities and support to access markets and grow. Overall, it aims to increase the awareness and understanding of social enterprise, build the investment readiness of social enterprise and grow the market for social enterprise products and services.

Social enterprises are also helping each other to grow and develop. Social Firms Australia (SoFA) is implementing its vision for workplaces accessible to all people through creating sustainable employment for people with disability and mental health conditions. They deliver this vision through social firm development assistance, workplace supports, research, innovation, advocacy and a commitment to their workforce comprising between 25 and 50 per cent of people with a disability.

Another social enterprise, Buffed, has emerged as the first social enterprise to adopt the franchise model. In doing so, it has established a network of shoe shine stands to provide business opportunities for people with limited employment outlooks. They estimate that one of their franchises alone, with average income of \$31,200 will see \$2,912 tax paid and save Government \$16,250 in income support payments. Scaled to their target of 110 franchises, Buffed will enable \$320,320 in tax payments and \$1.78 million in income support savings.

Stakeholders agreed with the potential for social enterprises to play a part in the new social support system and the need for support of their development. Social Ventures Australia noted the success of governments overseas in developing long term social enterprise development strategies. The UK developed strategies in both 2002 and 2011 and now social enterprises contribute over £55 billion to the economy and employ over two million people. While Australia has implemented some strategies for social enterprise development, these have often been short term in nature.

Australia would benefit from a long term strategy to support social enterprise development. Such a strategy could consider how to increase demand for investment by enterprise, increase supply of investment to enterprise and improve the enabling environment. It would consider some of the interventions available to government along the various development stages of a social enterprise, including the start up phase, the growth phase and the sustainability phase.

Social enterprises offer clear benefits to communities and the disadvantaged individuals within them. More can be done to promote the development of social enterprises and growth in the market for them. The stronger social enterprises are and the more demand grows for them, the less they will be reliant on government grants and interventions.

## Volunteering

Voluntary work expands opportunities for social participation, personal development and recreation within a community. Volunteering also helps to develop and reinforce social networks and cohesion. In 2010, an estimated 6.1 million people participated in voluntary work (in the form of time, service or skills) through an organisation or group in Australia. Volunteers contributed an estimated value of \$14.6 billion in unpaid work in 2006–07.

Despite the pressures of balancing work and family life, people who were employed were most likely to be volunteers, with 44 per cent of those with part time work and 38 per cent of those with full time work volunteering. This compares to 20 per cent of unemployed individuals volunteering. Sport and physical recreation organisations were the most common type of organisation that people volunteered for, accounting for 63 per cent of volunteering fathers and 47 per cent of volunteering mothers.

Many civil society organisations rely on volunteers to deliver services and support to individuals and families within and across communities. For example, in 2010, 1.3 million people were volunteers in civil society organisations across Australia. These volunteering opportunities in turn allow individuals to actively engage in their communities and in some cases can provide a pathway to paid employment. For young people, it provides an opportunity to connect with a positive role model and build skills to become work ready.

Opportunities for unemployed volunteers to work alongside their employed counterparts can allow for mutual learning and the forging of networks that can lead to future employment. The social participation involved in volunteering is beneficial for the individuals involved and the community as a whole. There is also some evidence that the benefits of volunteering may offset some of the ill effects of unemployment and underemployment, including by offering a sense of purpose, inclusion and greater confidence.

Despite historically healthy rates of volunteering across Australia, these levels are falling. The 2013 World Giving Index indicator of those who give their time for others saw Australia fall from 12th position world wide to 18th position. In light of the positive social benefits of volunteering outlined above, any fall in rates of volunteering is cause for concern and government should look to arrest this decline. Given its potential to support employment outcomes, a return to high levels of volunteering would be of particular benefit for jobseekers, young people and others with partial capacity to work.

## Recommendations



Develop annual awards to acknowledge, showcase and promote outstanding partnerships between civil society organisations, business and government.



Review the regulatory environment to reduce red tape and remove barriers to philanthropic giving.



Governments should work with civil society organisations and business to deliver an effective, efficient and sustainable capital market that better directs financial investment towards social purposes and solving social problems.



Expand outcomes based social purpose investment models, including Social Impact Bonds, to target financial investments towards addressing social problems.



Develop a longer term strategy for social enterprise development. This strategy will consider how to increase demand for investment by enterprises, increase supply of investment to enterprises and improve the enabling environment for social enterprises.



Support initiatives to grow the rate of volunteering as an avenue for social and economic participation, in particular for jobseekers, carers and people with a partial capacity to work.

## Role of Business

At June 2013, there were 2.1 million businesses actively trading in Australia. These enterprises maintain a leading role in providing employment, economic growth and government revenues Australia wide. Businesses also increasingly support better social outcomes for the communities in which they operate. Micro businesses, small to medium enterprises (SMEs), large businesses as well as mutuals and co operatives and social businesses all play a role in building the capacity of communities to improve employment and social outcomes.

The role of business attracted attention throughout the consultation process. Stakeholders acknowledged the importance of business in connecting jobseekers to employment and equally the need for business to invest for social purposes. Businesses of all forms and sizes were urged by stakeholders to conduct their operations in accord with the principles of Corporate Social Responsibility.

## Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that involves businesses ensuring their conduct is legal, ethical and sustainable. Businesses are no longer influenced only by profit margins and operate increasingly in an environment where they are expected to consider environmental, social and community factors in their trading activities.

For example, The Australian Network on Disability is a not for profit organisation established and resourced by its member organisations, such as Benbro Electronics, Westmead Children's Hospital, IBM and Westpac, to advance the inclusion of people with disability in all aspects of business. The Network's role is to support businesses and organisations to welcome people with disability as employees, customers and suppliers, and to promote CSR.

CSR can manifest in many ways, from corporate grants to community partnerships. When properly adopted, CSR is beneficial for local communities and for a range of groups, including disadvantaged and vulnerable individuals and families. CSR will be an important feature of the new social support system.

The key elements identified for a successful CSR partnership are: shared values, a trusting relationship, value creation for all parties, a shared and continuing narrative, staff engagement and mutual marketing benefits.

Each year the Australian Centre for Corporate Social Responsibility surveys industry and produces a State of CSR Annual Review. Its tenth edition in 2014 found some recent achievements, including increased awareness of CSR and the development of many CSR tools and implementation frameworks. It also found there was a need for further leadership from government, business and academic sectors to promote the pace of CSR growth in Australia.

Social procurement, where a social outcome or objective influences the purchasing of a good or service, is another way business can demonstrate CSR. As a business practice, social procurement is gaining momentum in Australia. A recent survey by Social Traders found over \$905 million was directed to social procurement by 11 major businesses alone. The same survey found the most common ways business are implementing social procurement are through contract clauses and supplier identification and development.

CSR is a valuable way businesses can fulfil their role in building the capacity of communities. Whether through donations, partnerships or social procurement, CSR has proven effective in delivering real local benefits. As CSR becomes more and more mainstream, organisations should be encouraged to make socially responsible decisions across all of their current operations and in future business plans.

## Large Businesses

The Australian Taxation Office defines a large business as one that has combined annual turnover of \$250 million or more. The Australian Bureau of Statistics defines a large business as one employing 200 or more people. Less than 1 per cent of all businesses in Australia are large businesses by these measures, yet these enterprises employ around 30 per cent of Australia's workforce.

Large businesses contribute significantly to Australia's economy and society, providing employment, infrastructure and tax revenue to support the nation and its people. Some large businesses have established their own social purpose foundations, while others undertake substantial grant programmes aimed at assisting communities, organisations and groups across Australia. These corporate initiatives are key to the role business plays in building community capacity and supporting disadvantaged individuals.

The National Australia Bank (NAB) has invested heavily in local communities. It supports and develops programmes to build financial capability and ease financial hardships, donates widely to civil society organisations and recently announced a \$1 million investment in community impact investment grants.

Telstra has committed to community sustainability and delivers on this commitment through awards such as the Telstra Business Women's Awards, grants through the Telstra Foundation and support for employee volunteering and giving.

## Small to Medium Enterprises

A small to medium enterprise (SME) is defined by the ATO as a business with a turnover between \$2 million to \$250 million. The Australian Bureau of Statistics defines an SME as a business which employs between 5–199 people. Around 90 per cent of Australian businesses are SMEs, they employ around half of all workers and are the main source of new jobs.

SMEs are key sources of dynamism, innovation, and flexibility across the economy and communities. They are key economic actors in resource allocation and industrial restructuring processes.

The Australian Centre for Corporate Social Responsibility notes that many SMEs may be helping their community by doing CSR in some way but may not necessarily label it as a CSR activity. The same report finds a number of barriers for SMEs to become involved in CSR, detailed below.

### Barriers to SME Corporate Social Responsibility:

- the cost of implementing CSR activities
- time and resource constraints
- a lack of awareness of the business benefits with no understanding of the business case
- no incentives or frameworks for business to engage with the CSR concept
- fear of additional regulation and red tape.

## Micro Businesses

A micro business is an enterprise with less than five full time employees, and includes self employed people. Around ten per cent of Australian businesses are micro businesses.

Micro businesses are responsible for employing around 20 per cent of individuals. Due to their small size, micro businesses tend to be more embedded in their local communities. Research suggests many micro businesses are active contributors to community capacity building.

As a business entity, they have proven successful in facilitating innovation and entrepreneurship and serve as a supporter of community development by investing in local areas and contributing to community initiatives.

The 2014 OECD Report *Entrepreneurship at a Glance* found across the world most businesses are micro businesses. It also concluded that as barriers to entrepreneurship progressively reduced over the last 10 years across OECD countries, there were increasing opportunities for entrepreneurs to start their own enterprises.

Several studies have found that approximately 60 per cent of small businesses fail within their first three years of operation. There is a need for programmes which support entrepreneurs to establish micro businesses.

One such programme is delivered by Enterprise Learning Projects (ELP). It supports remote Aboriginal people to develop and grow their own business ideas by offering practical learning and individualised support. Key principles underpinning ELP support for micro enterprise start ups are: a focus on the ideas and aspirations of local people; people make and own decisions; start small and grow; build on assets and strengths; learn as you go; low start up costs; and rapid prototyping for practical and early learning.

Another recent example can be found in the Service to Youth Council's new Bizifyd pilot programme, which helps train young people with Information Technology skills to create their own consultancy businesses. Bizifyd aims to provide young people with business and enterprise skills, as well as employability skills that give them the opportunity to set up their own business and enter the workforce. Bizifyd will connect micro and small business owners who have limited time and knowledge of social media and IT with young people who may have both the time and interest in technology.

The Australian Government also offers support for micro business through the New Enterprise Incentive Scheme (NEIS). NEIS helps unemployed Australians start new small businesses by providing accredited small business training, assistance with preparing business plans, ongoing mentoring and income support for the first nine months the business is operating.

A 2009 evaluation of NEIS found employment outcomes were sustainable between the three and 16 month mark. Surviving businesses created additional employment opportunities and off benefit outcomes for NEIS participants. Five years after exiting, 80 per cent of participants were still off income support.

Micro businesses have potential to improve outcomes for some of the various groups at risk of high levels of unemployment. Analysis of the NEIS programme has found that typically the older the applicant, the better their self employment outcomes will be.

An OECD report on Youth Entrepreneurship proposes that levels of youth unemployment can be tackled by channelling young entrepreneurs towards micro business. Similarly, a report by the United States Chamber of Commerce has found that over the last 15 years, women owned firms have grown by one and a half times the rate of other small enterprises.

A considerable number of submissions highlighted the need for disadvantaged individuals to start micro businesses. A common theme of their submissions was the need for programmes such as NEIS to be more responsive and flexible. Other submissions suggested providing seed grants for initial pilots or feasibility studies of a business concept, more liberal treatment of micro business revenue for income support payment purposes and the value of more individualised support and diverse training options.

### Principles underpinning successful micro business programmes:

- small business and entrepreneurial training
- mentoring and networks
- funding opportunities
- exposure to investors
- on going developmental support
- time limited access to income support for some groups.

Whether support for micro business is delivered by the private sector or through government, successful principles are shared. Supporting jobseekers to start and grow their own micro business is proven to improve social and economic outcomes.

## Microfinance

Microfinance is another example of the role of business and investment in community capacity building. Financial independence and access to loans are important elements of building individual capacity and community participation. Microfinance assists disadvantaged households to buy essential goods and services and in many cases serves as a funding opportunity to establish the micro businesses discussed above.

The Community Development Financial Institutions (CDFI) pilot is an Australian Government programme that offers access to personal loans and micro business loans to disadvantaged individuals. Funded first in 2009, the CDFI seeks to build the capacity and resilience of disadvantaged and financially excluded individuals. It does this by attracting investment and injecting funds into community finance organisations that offer them financial services and products that they would not be able to access from mainstream sources.

Participating CDFI organisations have received seed funding from the Australian Government to provide appropriate and fair access to financial products and services. These institutions have demonstrated a commitment to supporting vulnerable Australians to get access to financial services. They provide individuals who are able to repay a loan but are excluded from mainstream banks access to safe and affordable credit, ensuring that credit is appropriate for their means and reflects their ability to repay.

An independent evaluation of the effectiveness of the CDFI was performed by Westwood Spice in 2013. In general, it found the programme was effective in creating products that were attractive to people who otherwise would face financial exclusion. A majority of clients were on track to repay their loans and none of the pilot organisations reported concerns with the current level of arrears.

The evaluation found some issues in regards to delays and the ability of institutions to achieve financial sustainability but recommended the pilot be extended. The Australian Government allocated funding to extend the pilot in 2013–2014 and again for an additional 12 months in 2014–15.

Submissions to the review noted that microfinance programmes in Australia focus primarily on building individual assets rather than on providing people with the capacity to establish micro businesses. This is despite the fact that access to a small loan can have a key role in enabling someone to run a micro enterprise.

Submissions noted that starting a small business requires a lot of support, including managing business plans, cash flow, finance, marketing and a range of other skills necessary for business to succeed. Throughout consultations, it was recommended that Government, financial institutions and civil society organisations should work together to develop specific microfinance programmes for micro business start ups and for jobseekers who need support to transition into work.

The National Australia Bank (NAB) Microenterprise Loan Programme was cited as a good example of a programme that provides finance while at the same time providing support for start ups. The evaluation of the NAB microenterprise programme found loan recipients had different challenges in accessing mainstream finance and 59 per cent of survey respondents agree that they found mainstream business finance 'difficult to access'.

Another Australian example is the Good Shepherd Microfinance No Interest Loans Scheme (NILs). These loans, usually of \$1,200 but often up to \$1,800 carry no interest or additional fees and are available to low income earners. An evaluation of NILs shows it directly improves the lives of its clients with an 82 per cent improvement in economic outcomes and a 74 per cent improvement in social and health outcomes. Evidence is that NILs creates positive economic and social impact. For every dollar invested in NILs, a social and economic return on investment of \$1.59 is created. The rate of default on NILs loans are on average lower than those on commercial loans.

Government programmes in the European Union (EU) and the USA have proven successful at supporting microfinance schemes and other initiatives encouraging self employment. The EU has developed a Competitiveness and Innovation Framework Programme in recognition of the fast growth of self employment in the labour market. Furthermore, the EU is providing microfinance guarantees, loans and equity to intermediaries lending to small business.

The EU does not directly provide microloans to individuals or businesses, but provides guarantees, loans and equity to intermediaries that can then lend to small businesses or make available equity finance. Loans are up to €25,000 (around \$A36,000) for self employed people and businesses with fewer than 10 employees.

## Social Businesses

Social businesses operate for the benefit of addressing social needs. In operating for a social objective, these entities are similar to the social enterprises discussed earlier in Pillar Four. Yet while social enterprises may still return a profit or dividend to their owners, a social business reinvests all profits back into the business to further deliver its desired social impact.

"All human beings are entrepreneurs, they just need the opportunity ... human beings should be job givers not job seekers, it is ideas that create jobs."—Professor Muhammad Yunus

The principles of social business have been developed with a primary social objective at the core of the organisation. These principles include: a business objective to overcome a social problem; financial and economic sustainability; investors do not receive a dividend; environmental consciousness; market wage remuneration; and adequate working conditions.



One of the world's leading social businesses is Grameen Bank, founded by Nobel Laureate Professor Muhammed Yunus. Grameen Bank has lifted millions of individuals out of poverty and is based on the premise that small loans can deliver profound benefits to poor people. Since 1976 it has helped people by providing suitable loans and financial literacy skills. Grameen has distributed over \$11.35 billion across 2,565 branches and has a 99 per cent rate of repayment, despite requiring no collateral.

The Grameen Bank Principles of Microfinance include: credit is a fundamental human right; use loans to create self employment and offer housing; microfinance is based on trust not collateral or contracts; the basic methodology of conventional banking should be rejected; people should not go to the bank, the bank should go to people; all loans are to be paid back in instalments; build social capital and develop a social agenda; loans can be received in a continuous sequence; borrowers may have more than one loan; and loans should be offered by non profit organisations or organisations owned by the borrowers.

The Grameen Bank is also one of the world's leading social businesses. In addition to their microfinance facilities, Grameen has established many other successful social businesses:

- Grameen Danone—A social business partnership between Grameen Bank and multi national food producer Danone. In response to high levels of child malnutrition in Bangladesh, Grameen Danone produces low cost, high nutrient yoghurt.
- Grameen Telecom—A social business providing people in rural communities a mobile phone. It aims in turn to utilise the mobile phone as a source of income generation to lift individuals out of poverty.
- Grameen Shakti—A renewable energy social business established to develop renewable energy technology throughout Bangladesh. Shakti is among the fastest growing renewable energy companies in the world and involves training young technicians to service the technologies.

While social businesses have been effective in developing countries such as Bangladesh, they have also proven to be valuable enterprises in developed countries. Grameen Australia was founded in 1998 to accelerate the impact of microfinance and social business for disadvantaged groups. An affiliate of the Grameen Bank, Grameen Australia has developed social business activities that provide training and support for disadvantaged communities.

Similarly, Grameen America took the microfinance principles of Grameen Bank to the USA. Grameen America started in New York but has since expanded across the USA. Since 2008, the social business has distributed over US\$170 million in microfinance to over 32,000 Americans living below the poverty line to help them develop self employment opportunities.

## Mutuals and Co operatives

Mutuals and co operatives are formed to meet the needs of their members. At present, Australia is home to an estimated 1,600 co operatives and mutual businesses with more than 13 million members generating a turnover of over \$17 billion per annum. Based on the idea of self help and empowerment, they provide jobs for local people, offer goods and services and use procurement practices that support local business.

While mutuals and co operatives include not for profit enterprises as well as small local customer owned entities, they also encompass large for profit businesses. Some of these organisations, for

example, the Co operative Bulk Handling, with an annual turnover of \$2.87 billion, and Dairy Farmers Milk Co operative, with a turnover of \$500 million. Given the considerable revenues and turnover of these entities, they can play a role in building capacity across regional and rural communities.

Mutuals and co operatives are grassroots businesses owned and operated at a local level to contribute to local economic development and demonstrate strong potential to empower communities through partnerships and cooperation. There are a number of impressive examples of mutuals and co operatives currently operating in Australia including the Traditional Credit Union, Bankmecu, Westfund Health Insurance and Macleay Regional Co operative Limited. Stakeholders were broadly supportive of mutuals and co operatives in supporting community outcomes.

The Business Council of Co operatives and Mutuals (BCCM) identified three types of co operatives and mutuals: consumer co operatives, which are community owned where people with a common purpose collaborate towards agreed goals; producer co operatives, where employees share a common goal and have the skills to co operate; and enterprise co operatives which deliver corporate services to smaller local providers. The Council's 2014 White Paper *A Third Way for Delivering Public Services in Australia* calls for a greater role for mutuals in delivering public services.

In its submission, the BCCM suggested consumer co operatives should be further expanded to include people with disability and their families. As the roll out of the NDIS continues, there will be further opportunities for these services to be delivered through co operatives, especially in rural and remote areas. The BCCM also suggested this type of co operative would also provide carers with the contacts and increased confidence to assist their return to work when their caring role changes.

The BCCM recommends that the Federal Government promote the value to civil society of mutuals and co operatives, noting their potential to: generate positive social outcomes for individuals and communities; generate economic and social resilience for individuals; communities and organisations; achieve higher levels of consumer engagement; and improve employee wellbeing in the delivery of services.

Recent evaluations of Public Service Mutuals in the UK found promising results including higher productivity and innovation as well as reduced turnover and absenteeism among staff. Given their comparative advantages and potential to build community capacity by providing jobs and support, more should be done to encourage the growth of mutuals and co operatives in Australia. Government should work with the BCCM to ensure legal, regulatory and economic environments promote the development of mutuals and co operatives.

## Recommendations



Work with business and civil society organisations to promote the benefits of Corporate Social Responsibility.



Expand support and eligibility for programmes that provide funding and training to enable people to set up micro businesses.



Work with the Business Council of Co operatives and Mutuals to ensure an enabling regulatory, economic and social environment to support mutuals and co operatives.

## Role of Government

In the new system, the role Government plays in building community capacity extends to the local, state and federal levels of government. It is a role that includes funding support services and providing community investment, regulation and coordination.

Jobseekers and disadvantaged individuals encounter government when accessing universal services such as healthcare and education, in the administration and receipt of income support payments and in any day to day activities such as accessing public transport, using community infrastructure and interacting with the justice system. As these individuals engage socially in their communities they will also interact with government through its funding of local infrastructure, sporting facilities and civil society organisations.

Governments also maintain a role in promoting and building community resilience. This refers to the capacity of a community to draw on its own internal resources to cope with and adapt to change, such as the loss of a major local employer or industry or a significant event like a major flood or bushfire. The more governments help communities to build their assets and strengths, the better equipped they will be to adapt to and respond positively to future change and crisis.

The role of government in Australia is evolving. The division of powers laid out in the Constitution has been interpreted at different times by the High Court, most recently in the *Williams Case*. At present, a White Paper on the Future of the Federation is considering which levels of government should be responsible for which areas of policy and service. The outcome of this process may affect which levels of government have carriage of some powers and responsibility for services that impact communities.

Government can perform its role in building community capacity not only through direct funding and infrastructure but in creating an enabling environment. A number of stakeholders said government needed to create an enabling environment for civil society and business by reducing regulation and red tape. A light touch regulatory role can be performed just as much by the Federal Government as it can by its state, territory and local Government counterparts.

By recognising that local needs and issues are best understood by local communities, governments can benefit from allowing communities to contribute to policy design. This is referred to as the concept of co design and involves government actively engaging with local communities to develop policy settings tailored to them. When performed effectively, co design can lead to better and more responsive services, engage individuals socially and build social capital through enhanced community cohesion.

### Principles of Policy Co Design:

- drawing on experience of stakeholders
- exploring innovative ideas
- experiment through testing and piloting
- evaluate and review outcomes with stakeholders
- make changes as a result of evaluations.

The Australian Government's proposed Civil Society National Centre for Excellence can support community capacity by fostering collaboration and providing education and training. Other Australian Government initiatives serve as an important holder of resources for business and civil society, such as the Australian Government funded Business Portal [business.gov.au](http://business.gov.au) and Business Enterprise Centres nation wide.

In funding, regulation and services, there is clearly a prominent role for Government to play in building community capacity. Jobseekers and individuals rely on Governments to improve their social and economic outcomes. The role of Government however is not necessarily always one of intervention. Civil society and business can best perform their roles described throughout this report when Government creates an enabling environment free of regulation and red tape.

## Recommendations



Adopt the principles of co design in developing policies and programmes aimed at building community capacity, by drawing on the expertise of consumers, business and community stakeholders, exploring innovative ideas, testing initiatives and evaluating interventions.

## Role of Technology

The new social support system includes an important role for technology in building the capacity of communities. Increased access to information and communication technology is an essential tool for people to participate socially and economically. It delivers innovation and efficiencies, which serve to enable groups and individuals. To this end, technology can assist civil society, business and government in fulfilling their roles to build community capacity.

Increasingly, the labour market requires computer literacy to secure employment. As a result, it is more important than ever that the skills required to access technology are available in communities. A lack of technological access significantly affects the ability of individuals and families to actively participate in their community, both socially and economically. A recent survey of single parents found that over 80 per cent consider access to the internet essential in their effort to seek more hours of employment or to gain employment.

Despite its benefits, jobseekers and disadvantaged groups do not have the same access to technology as their higher income earning counterparts. A 2011 Australian Bureau of Statistics survey found that only 55 per cent of Australian households in the lowest income quintile were

connected to the internet. Consistently, this annual survey of household internet use confirms that higher income households are more likely to have internet access.

In 2013, 98 per cent of households with income of \$120,000 or more had internet access, compared with 57 per cent of households with an income less than \$40,000. One submission observed there is an increasing digital divide, with disadvantaged individuals most at risk of digital exclusion. Government, business and civil society have a role in promoting digital inclusion by providing people skills and confidence to use technology.

## Civil Society

Civil society organisations have been proactive in providing disadvantaged individuals access to technological equipment, tools, advice and training. Connecting Up Inc. offers free resources to civil society organisations wanting to use social media to reach clients and deliver services. In another example, Infoxchange Australia delivers technology for social justice by working to strengthen communities and organisations through proficiency training and toolkits.

For civil society organisations, technology can also assist the building of community capacity in other ways. Earlier in this report, the way in which technology provides opportunities for online philanthropy was explored. Similar social media tools also build social networks through which civil society organisations can build social capital, especially in ways of reaching out to regional, rural and remote clients. Technology is also improving the internal efficiency of civil society organisations, through streamlined administration and internal productivity. As a result, these entities can dedicate more time and resources to the delivery of support services.

Some civil society organisations are using new technologies to develop apps targeted specifically at young people living with mental health conditions. These include iCope, which provides strategies to distract from and displace thoughts of self harm, *MoodGYM*, an online programme providing cognitive behavioural therapy and *Talking Anxiety*, which aims to give people knowledge and confidence to manage the day to day challenges of living with an anxiety disorder. Technology will have a further role to support the building of community capacity for people with mental health conditions.

## Business

The benefits of technology for business are well established. Technology drives business productivity, innovation and provides new opportunities for industry. The National Broadband Network is slated to deliver many benefits to business, including flexible working opportunities, engagement through high quality video conferencing, e commerce advancements, performance improvements and exposure to new markets.

Given the increasingly digital labour market, business also has a role to play in delivering access to technology and providing individuals with the skills necessary to navigate modern technological workplaces. Where businesses invest in the training of the employees to utilise technological effectively, employees will benefit through developing soft skills that will transfer to future employment opportunities.

## Government

Government has a role in both providing the infrastructure for technology and supporting disadvantaged individuals to access it. The Australian Government is currently rolling out the NBN. This multi billion dollar investment in technological infrastructure aims to deliver all Australians high speed broadband internet. Coinciding with the roll out of the NBN are a number of Government initiatives supporting access to technology.

### Australian Government Information and Communication Technology Initiatives:

- The Internet Basics website provides a starting point for internet novices to build the skills and confidence needed to get online. The website is designed specifically for people who are new to the internet and people who are looking to learn to be more confident and safer online.
- The Digital Hubs programme is helping communities gain the digital literacy skills needed to effectively participate in the digital economy.
- The Digital Local Government programme helps local governments enhance their online services and maximise the benefits of high speed broadband. The aim of the programme is to bring about significant improvements in the quality, availability and speed of local government services.
- The Digital Business website provides practical guidance for small businesses and community organisations to establish and enhance their online presence. Digital Business Kits will address industry specific gaps in digital knowledge and promote use of innovative digital solutions to market products and services, engage with clients and improve business operations.
- The Digital Enterprise programme is helping small to medium enterprise and not for profit organisations improve the way they do business online and participate in the digital economy.
- The Telework website is helping increase the take up of telework by workers and business.

Technology is also enabling Government to deliver better services in a digital environment. Centrelink Apps allow families, students and jobseekers to access their payments and report income without having to visit an office or wait on the phone. The Digital Wallet application further allows these income support recipients to access concession cards using their mobile phones. Moreover, the JobSearch App provides an easy way for jobseekers to connect with employment services and find employment opportunities through GPS functions.

Some stakeholders provided suggestions on how government can assist with technological access. Anglicare Australia and Youth Connections both proposed that technology infrastructure be located in areas where people congregate such as shopping centres, social housing and community hubs. People With Disability suggested that Government could use the Prime Minister's Community Business Partnership to promote the delivery of accessible technology at a low cost to people with disability throughout Australia.

ICT adoption and usage is playing an active and innovative role in community development. It is enabling Government, business and civil society to build social capital and more broadly develop the capacity of community. Increased access to technology and innovative uses for technology will allow individuals to better participate socially and economically.

## Recommendations



Ensure jobseekers and disadvantaged groups have adequate information and communication technology (ICT) skills and access to ICT, in particular access to online employment and support services and job opportunities in the new system.



Work with civil society and business organisations to advance ICT skills and access for people with disability and mental health conditions to jobs and services.





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# Appendix A:

## Reference Group Members

### Mr Patrick McClure AO

Patrick McClure has been a leader in the third sector for 20 years. He was CEO of Mission Australia from 1997–2006. During that period the organisation was transformed from a state based entity to an international organisation with revenue of \$250 million and 3000 staff providing employment, training, housing, youth and family services. He was CEO of the Society of St Vincent de Paul (New South Wales/ACT) from 1992–1996. He was also CEO of The Retirement Villages Group within Macquarie Capital Funds (2006–2008).

Patrick was Chairperson of the Australian Government's Reference Group on Welfare Reform (1999–2000), Deputy Chairperson of the Welfare to Work Consultative Forum (2005–2006) and Member of the Board for a New Tax System (1999–2001). He was a Member of the Prime Minister's Community Business Partnership (1999–2007). He was also Chairperson of the OECD LEED Forum on Social Innovation (2003–2007) based in Paris. He was a Commissioner of the Australian Fair Pay Commission (2006–2009) and a member of the Aged Care Advisory Group (2011). He was appointed an Officer of the Order of Australia (AO) in the Australia Day 2003 honours list and awarded an Australian Centennial Medal (2001).

### Ms Sally Sinclair

Sally Sinclair is the CEO of the National Employment Services Association, the peak body for the Australian employment and related services industry. Sally has been instrumental in informing key stakeholders on addressing Australia's employment and inclusion challenges including strengthening the integration of employment, education and training, and increasing employment of disadvantaged job seekers including Indigenous job seekers, people with disability, long term unemployed, youth and mature aged.

Sally has extensive expertise in the design, development and delivery of employment and related services. Her experience spans the not-for-profit and for profit sectors, as well as numerous government appointments. Among her expert roles, Sally is a member of the Civil Society 20 (C20) Steering Committee, and co chairs the C20 Inclusive Growth and Employment Working Group. Sally is also a Board member of the OECD Local Economic and Employment Development (LEED) Programme's Forum on Partnerships and Local Governance and is an expert advisor to the OECD LEED Programme's Employment and Skills Strategies in Southeast Asia initiative.

Sally holds a BSc (Hons) from the University of Melbourne, majoring in neuropsychology.

### Mr Wesley Aird

Wesley Aird works on solving problems so that Indigenous Australians can become genuine participants in the real economy. His primary work is with resource sector companies in the management of native title and cultural heritage and also in the development of initiatives for Indigenous employment, training and business. Wesley maintains a very strong commitment to his own community through both native title and cultural heritage for the Gold Coast native title group.

Wesley's previous government appointments include membership of the National Indigenous Council and the Welfare to Work Consultative Forum.

# Appendix B:

## List of Public Submissions to the Reference Group

The 220 organisations, individuals and other entities listed below consented for their submission and identity to be published. Other submissions were received without such consent.

Ability Research Centre

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Aboriginal Legal Services of Western Australia

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Advanced Personnel Management

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AFL Cape York House Cairns

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Alexandra McCart

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Alexandrian Enterprises Ideations Cultural Consultancy

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Andrea [Name Withheld]

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Andrew [Name Withheld]

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Anglicare Australia

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Ann Morris

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Anne Fleuren and Penelope McMillan

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Anti Poverty Network South Australia

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Anti Slavery Australia

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Arthritis Australia

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Arts Access Australia

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Australian Association of Social Workers

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Australian Centre for Christianity and Culture

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Charles Sturt University

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Australian Chamber of Commerce and Industry

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Australian Council of Social Services

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Australian Council of Trade Unions

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Australian Federation of AIDS Organisations and National Association of People with HIV Australia

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Australian Human Rights Commission

Australian Institute of Health and Welfare

Australian Psychological Society

Autism Aspergers Advocacy Australia

Azan Mann

Barnados Australia

Beyondblue

BHC – Creating Liveable Communities

BJL Connecting Communities

Blind Citizens Australia

BoysTown

Bravo Consulting Group

Break Thru People Solutions

Brimbank Social Justice Coalition and the Brimbank Disability Network Group

Broadmeadows Progress Association

Brotherhood of St Laurence

Bruce Bickerstaff

Business Council of Australia

Business Council of Co operatives and Mutuals

Cape York Institute

Care Inc Financial Counselling Service

Carers Australia

Carers New South Wales

Carla de Simone

Catherine Fraser

Catholic Social Justice Commission, Archdiocese of Canberra and Goulburn

Catholic Social Services Australia

Centre for Digital Business Pty Ltd

Cheryl Walsh

Cohealth
Colony 47
Combined Pensioners and Superannuants Association
Community Housing Federation of Australia
Community Information and Support Victoria
Community Services and Health Industry Skills Council
Council of Single Mothers and their Children Victoria Inc
Council of the Ageing Australia
Council to Homeless Persons
Cr Irene Doutney
David O'Brien
David Pearce
Denis Moretto
Diana Taylor
Disability Advocacy Network Australia
Disability Employment Australia
Douglas McKenzie
Down Syndrome Association of New South Wales
Dr Shelley Bielefeld
Dr Stephen Lake
Edward Wilson
Elizabeth Morrell
Elizabeth Thomson
Enterprise Learning Projects
Ethnic Disability Advocacy Centre
Eva Cox AO
Fairfield City Council
Families Australia
Family Advocacy

Family and Relationship Services Australia

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FamilyCare Shepparton

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Federation of Ethnic Communities Councils of Australia

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Financial Counsellors Australia

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First Peoples Disability Network Australia

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Flourish

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Foundation House

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Good Beginnings Australia

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Good Shepherd Australia New Zealand and Good Shepherd Microfinance

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Goulburn Valley Family Care Inc

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Graham McPherson

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Group Training Australia

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Haemophilia Foundation Australia

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Home Education Association of Australia

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Home Education Network

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Homelessness Australia

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Illawarra and South Coast tenants Advice and Advocacy Service

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Illawarra Forum

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Inclusion Australia

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Isolated Children's Parent's Association of Australia

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Jade Cronan Thompson

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Jesuit Social Services

---

Jillian Barclay Davis

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Jobs Australia

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Joe Baxter

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Joint Pathways

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Joseph McCluskey

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Judith Willis

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Julia Farr Association Purple Orange

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Karen Henry
Karen Phillips
Kathryn Barnes
Kidney Health Australia
Kira Grayson
Loris Hemlof
Mangrove Mountain Anglican Church
Marcia Spitzkowsky
Marie Scott
Mary Walsh
Masters of Life Association
Matthew Gee Kwun Chan
Max Solutions
McAuley Community Services for Women
Media Access Australia
Melbourne City Mission
Mental Health Commission of New South Wales
Mental Health Council of Australia   National Mental Health Consumer and Carer Forum
Mental Health Council of Tasmania
Mental Health First Aid Australia
Mental Illness Fellowship of Australia
Mental Illness Fellowship Victoria
Mercy Foundation
Migrant Resource Centre
Mina Iacono
Mission Australia
MTC Australia
Multiple Sclerosis Australia
Myjenta Winter



National Australia Bank

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National Congress of Australia's First Peoples

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National Council of Single Mothers and their Children Inc

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National Disability Services

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National Employment Services Association

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National Foundation for Australian Women

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National LGBTI Health Alliance

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National Mental Health Commission

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National Seniors Australia

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National Shelter

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National Stroke Foundation

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National Welfare Rights Network

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New South Wales Consumer Advisory Group

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New South Wales Government

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New South Wales Teachers Federation

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Nick Costello

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North Australian Aboriginal Justice Agency

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North West Regional Children's Resource Program

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Northcott Disability Services

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PeakCare Queensland

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People with Disability Australia Incorporated

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Peter and Beverley Rubenach

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Peter Shaecken

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Pirate Party Australia

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Playgroup Victoria

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Positive Life South Australia

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PricewaterhouseCoopers

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Queensland Advocacy Incorporated Forum

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Queensland Council of Social Services

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Queenslanders with Disability Network

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Refugee Council of Australia

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Regional Development Australia Sydney

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Rehabilitation Studies Unit, Sydney Medical School, Northern

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Renee de Simone

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Richmond Fellowship Western Australia

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RichmondPRA

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Salvation Army

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Sane Australia

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SDN Children's Services

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Settlement Council of Australia

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Social Ventures Australia

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South Australian Government

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Southeast Housing Co operative Ltd

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Speak out Association of Tasmania

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Speech Pathology Australia

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St Vincent de Paul National Council

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Stewart Gillies

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Sunnyfield Disability Services

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Support Help and Empowerment Inc

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Susan Barclay

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Susan Berry

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Susan Young

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SYC Ltd

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Tasmanian Government

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Tasmanian Parliamentary Labor Party

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Tenants' Union of New South Wales

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Tenants Union of Victoria

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ThankUbank

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The Benevolent Society

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The Interact Group

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The Royal Australian and New Zealand College of Psychiatrists

---

The Smith Family

---

Thomas Smith

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Ticket to Work

---

Townsville Community Legal Service Inc

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Unconditional Basic Income Australia

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UNICEF Australia

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United Sole Parents of Australia

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United Voice

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Uniting Justice Australia

---

UnitingCare

---

Victorian Alcohol and Drug Association

---

Victorian Public Tenants Association

---

Vision Australia

---

Western Australian Association for Mental Health

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YFS Ltd

---

Youth Network of Australia

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Youth Affairs Council of South Australia

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Youth Affairs Council of Victoria

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Youth Affairs Council of Western Australia

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Youth Connections

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Youth Off The Streets Limited

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YWCA Australia

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# Appendix C:

## Summary of Public Submissions to the Reference Group

### Overview

The Reference Group on Welfare Reform received 271 public submissions in response to its Interim Report released in June 2014. Most submissions were received from individuals (31 per cent). A substantial number of submissions were received from national non government organisations (NGOs) (17 per cent), national peak bodies (14 per cent), state NGOs (12 per cent) and state peak bodies (4 per cent). Submissions were also received from small to medium NGOs (9 per cent), political parties and unions (4 per cent), businesses (4 per cent), government bodies (3 per cent) and academics (2 per cent).

### Submission Themes

All submissions received by the Reference Group were individually analysed. Each contribution was considered both quantitatively and qualitatively. The analysis of submissions involved a thorough consideration of how each submission related to the various sections of the Interim Report and was an important influence in the drafting of the Final Report.

### Case for Reform

Submissions relating to Case for Reform were high in number. Submissions to this topic reflected a general concern for disadvantaged groups, in particular people with disability and young people. There was general agreement on the benefits of employment but also the need to define capacity for work and related concepts of severity and permanence in a new income support system. Most submissions agreed that there is a need for reforming the income support system.

### Pillar One: Simpler and Sustainable Income Support System

Pillar One attracted the highest number of submissions. In brief, there were diverse comments regarding a simpler and more sustainable system. A number of submissions relating to this pillar expressed an interest in the eligibility and conditions attached to proposed changes to Disability Support Pension and the new Tiered Working Age Payment. Submissions also noted concerns regarding the adequacy of payments and the effectiveness of Commonwealth Rent Assistance.

### Pillar Two: Strengthening Individual and Family Capability

Submissions evidenced considerable interest in more tailored employment obligations and individualised mutual obligations. Submissions pertaining to Pillar Two also focused attention on investing in children and how government can address complex needs. Within these submissions were both praise and criticism of income management mechanisms.

## Pillar Three: Engaging with Employers

Pillar Three attracted submissions with a clear focus on the government's role in engaging with employers. These submissions focused on both private and public initiatives to engage with employment. A common theme among submissions relating to Pillar Three was a concern around the number of jobs available and the attitude towards people with disability in the workplace. Recent and potential reforms to employment services featured in a number of submissions.

## Pillar Four: Building Community Capacity

Pillar Four, while attracting the least number of submissions, still generated considerable community interest. Submissions to this pillar were largely supportive of jobseeker's access to technology and the role of micro businesses and enterprises. Submissions also suggested a widespread community support for the role of volunteering and corporate philanthropy.

# Appendix D: Summary of Online Comments to the Reference Group

## Overview

As an alternative to providing a formal submission, individuals were able to make brief online comments to the Reference Group on Welfare Reform. During the consultation period, 231 of these online comments were made in response to the Interim Report.

The largest proportion of comments was received from income support recipients (43 per cent). Comments were also received from recipients of family payments (7 per cent), individuals with a family member who receives payments (8 per cent) and individuals working in a community organisation (9 per cent). Fewer comments were received from individuals in an employment or training organisation (2 per cent) or as employers (2 per cent).

## Comment Themes

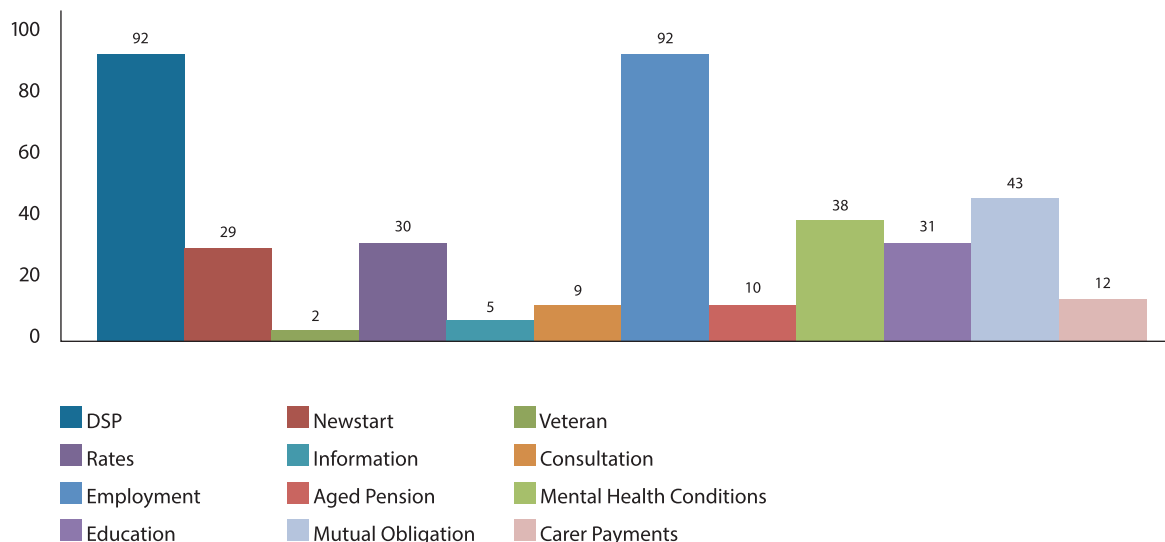
Comments received by the Reference Group were individually analysed. During this process, any issues raised by a comment were noted and as a result a number of themes were discerned.

The issues that attracted the most comments were:

- Disability Support Pension including eligibility, obligations, payment rates and capacity
- employment including workplace discrimination and the number of available jobs
- mutual obligation including income management and participation requirements
- mental illness including supports and work for people with episodic mental illness.

The comments reflect a number of issues relating to the income support system. While most contributors acknowledge the benefits in moving individuals from income support to work, a number noted the difficulty in finding employment in the current labour market.

## Frequency of Issue Raised



# Appendix E:

## List of Stakeholders who attended Roundtables

The Reference Group met with the organisations listed below in roundtable discussions to seek specific feedback on its Interim Report.

### Canberra 11 July 2014

Australian Chamber of Commerce and Industry

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Australian Institute of Health and Welfare

---

Carers Australia

---

Catholic Social Services Australia

---

Community Housing Federation of Australia

---

Crawford School of Public Policy

---

Families Australia

---

Family Relationship Services Australia

---

Federation of Ethnic Communities Councils of Australia

---

Homelessness Australia

---

Lifeline Australia

---

Mental Health Council of Australia

---

Migration Council Australia

---

National Centre for Social and Economic Modelling

---

National Council on Intellectual Disability

---

National Disability Insurance Agency

---

National Disability Services Limited

---

People with Disability

---

Relationships Australia

---

St Vincent de Paul Society National Council

---

The Salvation Army National Secretariat

---

Uniting Care Australia

---

Volunteering Australia

---

Sydney 15 July 2014

Aboriginal Employment Strategy

---

AMP Foundation

---

Anglicare Sydney

---

Australian Council of Social Service

---

Australian Human Rights Commission

---

Australian Network on Disability

---

Business Council of Co operatives and Mutuals

---

Campbell Page

---

Centre for Independent Studies

---

Enterprise Learning Project

---

Global Skills

---

Good Beginnings

---

Group Training Australia

---

Innov8 Consulting Group

---

Isolated Children Parents Association

---

McDonald's Australia

---

Mission Australia

---

MYC Marist Youth Care

---

National Shelter

---

National Welfare Rights Network

---

Nova Employment

---

St Vincent de Paul New South Wales

---

The Salvation Army Eastern Territory

---

Work Ventures

---



## Adelaide 18 July 2014

Baptist Care South Australia

---

Anglicare South Australia

---

Carer Support and Respite Centre Inc

---

Carers Association of South Australia

---

Centacare Adelaide

---

Complete Personnel

---

Council on the Ageing South Australia

---

Disability Advocacy and Complaints Service (South Australia)

---

Finding Workable Solutions

---

Interwork Limited

---

JFA Purple Orange

---

Jobfind Centre

---

Maxima

---

Mental Illness Fellowship of Australia

---

Mission Australia South Australia

---

National Council of Single Mothers and their Children

---

South Australia Council of Social Service

---

Salvation Army Southern Australia

---

Santos

---

Service to Youth Council Inc

---

St Vincent de Paul South Australia

---

Welfare Rights Centre (SA) Inc

---

Workskil Inc

---

## Cairns 24 July 2014

AFL Cape York House

---

Anglicare North Qld

---

Bamanga Bubu Ngadimunku Inc

---

Cape York Institute

---

Cape York Sustainable Futures

---

Catholic Education Services Cairns

---

Centacare Cairns

---

Gungarde Community Centre Aboriginal Corporation

---

Hope Vale Foundation Ltd

---

Marlin Coast Neighbourhood Centre

---

My Pathway/ITEC

---

NPA Family and Community Services Aboriginal

---

Qite

---

RFDS Cape York Wellbeing Centres

---

Street Level Youth Care

---

## Brisbane 25 July 2014

Anglicare Southern Queensland

---

Australian Pensioners' and Superannuants' League Queensland

---

Boystown

---

Brisbane Housing Company

---

Centacare Brisbane

---

Endeavor Foundation

---

Epic Employment

---

Max Solutions

---

National Seniors Australia

---

Rosies – Friends on the Street

---

Sarina Russo Job Access

---

St Vincent de Paul Queensland

The Salvation Army South Queensland Division

Uniting Care Queensland

Wesley Mission

Wesley Mission Brisbane

## Darwin 1 August 2014

Australian Red Cross – Northern Territory Division (Malak)

CatholicCare Northern Territory

Northern Territory Council of Social Service

Northern Territory Shelter

St Vincent de Paul Society (Northern Territory)

Ninti Limited

## Melbourne 4 August 2014

Adult Multicultural Education Services

Anglicare Victoria

Australian Council of Trade Unions

Australian Institute of Family Studies

Brotherhood of St Laurence

Carers Victoria

CatholicCare Melbourne

Catholic Social Services Victoria

Disability Employment Australia

Foundation for Young Australians

Good Shepherd Youth and Family Service

Hanover Welfare Services

Headspace

Jesuit Social Services

Jobs Australia Ltd

---

La Trobe University

---

Melbourne City Mission

---

Melbourne Institute of Applied Economic and Social Research

---

The Myer Foundation

---

National Employment Services Association

---

Philanthropy Australia

---

The Salvation Army Southern Territory

---

Scope

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Social Ventures Australia – Mr Kevin Robbie

---

TOLL Holdings Limited

---

Victorian Council of Social Service

---

## Hobart 12 August 2014

Advocacy Tasmania

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Anglicare Tasmania

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BEACON Foundation

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Centacare Tasmania

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Colony 47

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Migrant Resource Centre (Southern Tasmania)

---

Mission Australia Tasmania

---

Optia Incorporated

---

St Vincent de Paul (Tasmania)

---

Tasmanian Council on Social Services

---

The Salvation Army Employment Plus

---

Youth Network of Tasmania

---

TasCAHRD

---

Perth 15 August 2014

Anglicare Western Australia

---

Centacare Western Australia

---

Foyer Oxford

---

Minderoo Foundation

---

Multicultural Services Centre of WA Inc

---

Relationships Australia Western Australia

---

UnitingCare West

---

Western Australia Council of Social Services

---

atWork Australia

---

Carers Western Australia

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Ishar Multicultural Women's Health Centre

---

St Vincent de Paul Society (Western Australia)

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Western Australia Association for Mental Health

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Australian Association of Social Workers

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GenerationOne

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# Appendix F:

## Summary of Main Themes from Stakeholder Roundtables

Based on all roundtable discussions, from Canberra, Sydney, Adelaide, Darwin, Brisbane, Cairns, Perth, Hobart and Melbourne, the main themes from stakeholder consultations have been analysed.

### Case for Reform

#### Increased focus on labour market changes

There was support for a greater focus on building the case for reform.

In particular, there was discussion about including more detail about the changing labour market and where the jobs of the future would be.

It was accepted that there is a case for reform of the current social support system.

### Pillar One: Simpler, Sustainable Income Support System

#### A Simplified Payment System

There was strong support for a simplified payment system, broadly in line with the suggested payments recommended in the Interim Report.

Some stakeholders suggested one payment at a higher rate.

Some stakeholders viewed the differential rate as stigmatising certain groups (both at the higher and lower rate) and thought a needs-based single payment better.

Some stakeholders acknowledged that the United Kingdom single payment model was not ideal, and instead preferred the architecture detailed in the Interim Report.

There was strong support for a consistent approach to increasing payments across categories, to avoid the issues with the current system re emerging, but most stakeholders preferred increases greater than the consumer price index.

A need to balance the simplicity of the system against the need to be flexible to individual circumstances was noted by several participants.

A few stakeholders raised the idea of a cashless income support system.

#### Fair Rate Structure

Many stakeholders expressed concerns about the lack of definitions in the Interim Report in these key areas.

There was some suggestion of an independent tribunal or commission that could address adequacy and adjustment of rates.

Determining the adequacy of payments was raised often, including the rationale for determining payment adequacy and the extent of differences in rates in different payment categories for example the Disability Support Pension compared to the Newstart Allowance.

There were concerns about the definition and assessment of capacity to work, particularly for people with disability and how this may impact on mutual obligation requirements.

The idea that an assessment of an individual's capacity to work should include an assessment of the capacity of the job market to absorb them, especially if they have complex needs was raised.

A few participants expressed the view that the system needs to be designed to support the majority doing the right thing, not penalise everyone because of the actions of a minority.

One group expressed the view that income support and social support need to be equally weighted and developed in tandem, rather than placing the emphasis on income support.

Some questions were raised as to why 'permanence' of disability was important, particularly if it is already determined that an individual has no capacity to work.

### Transition Points

Transitions between key life events over the life course were a strong theme across all roundtables.

A number of participants highlighted the importance of managing transition points between payments effectively. This includes how an individual would be supported when moving between payment categories, particularly when transitioning from payment without participation requirements to a payment with participation requirements.

It was suggested that some key groups would need support with transitions including:

- young people transitioning from school to work
- young people transitioning from out of home care
- carers transitioning in and out of work
- people transitioning out of long term welfare dependence
- young people with disability transitioning from school to work.

A need to consider the incentives and disincentives that cause people to transition and work out how to harness these for positive outcomes was suggested.

### Changing Labour Market

There were a number of discussions about how the changing nature of employment should be taken into account in a new income support system. For example, the increase in part time workers and an ageing population.

It was noted that there is less stable full time work in the labour market. The system needs to be more flexible and support people to take on short term or part time work in recognition that this builds capability.

## Housing and Commonwealth Rent Assistance

Many stakeholders expressed the need to increase the housing stock, especially for accessible housing.

Stakeholders agreed that access to stable, affordable and appropriate housing can assist people to gain employment. Addressing housing affordability, particularly in areas with high job supply, was often detailed as a policy area worth further exploration.

There was strong support for increasing Commonwealth Rent Assistance, and intervening to reduce the gap in support between public and private rental markets.

Many stakeholders suggested that Commonwealth Rent Assistance rates should be linked to market rents with some suggesting it should differ based on regional disparities in rents.

A view expressed quite strongly by some service providers was that Commonwealth Rent Assistance should go directly to housing providers to alleviate the problem of rental arrears.

## Individualised Support

There was broad support for the principle that those who can work, should work where possible, noting that individual circumstances and sensitivities should not be discounted.

A recurring theme was that support should not be linked to payment categories but to individual need.

Some stakeholders suggested that income support recipients should have a dedicated contact who provides them with advice so they can build a relationship with them and get individualised support.

## Maintaining a Safety Net

Many stakeholders provided detail on how maintaining a safety net promotes individual and family capability.

There was support for ensuring people would not be adversely affected by moving to a new system.

## Pillar Two: Strengthening Individual and Family Capability

### Early Intervention

There was strong support for early intervention initiatives for disadvantaged groups. Many successful local level initiatives were discussed in detail to highlight the successes of early intervention initiatives.

It was suggested that there is a need to start capability building from a young age and that getting people work ready should be part of schooling.

### Certain groups are in greater need of capability building

Capability building for people with disability was a strong theme, particularly to prepare them for work given the significant gap in workforce participation.

Vocational Training and Employment Centres (VTEC) were viewed as being successful in achieving outcomes for key groups, particularly for Indigenous Australians.



## Income Management

Some stakeholders suggested that income management is not necessary and is paternalistic; others suggested it can be useful in protecting women and children in remote and Indigenous communities.

It was suggested that income management needs to be linked to financial literacy and be evaluated.

## An Investment Approach

There was broad support for an investment approach to fund the social support system.

Aligning reform to the principles underpinning the National Disability Insurance Scheme was suggested.

Discussion also supported the view that an investment approach would focus funding more closely to the delivery of outcomes.

One suggestion was that the actuarial approach could be used to identify areas of high return on investment in order to set up private investment through social impact bonds.

There was some suggestion that there needed to be greater investment in financial literacy capability building.

## Mutual Obligation

There was a lot of discussion about the need for mutual obligation activities to acknowledge individual circumstances, including capacity to work, caring responsibilities and issues related to recurring health issues.

It was suggested that mutual obligation should be marketed as a carrot rather than a stick approach and that requiring people to participate is an important capability building exercise for the individual, and they should be sold the benefits.

There was some discussion on barriers to labour force mobility, and how mutual obligation activities in areas with a shortage of jobs should be sensitive to the needs of the individual.

Many groups expressed a desire for mutual obligation requirements to include non work activities as long as these contributed to community development and improved the individual's capability, particularly in areas with jobs shortages.

## Outcome Driven Approaches

It was suggested that evaluations need to be published to encourage policy learning was expressed.

## Pillar Three: Engaging with Employers

### Making jobs available

It was suggested that there need to be jobs available if the new social support system is going to be focused on getting people to work to their capacity and that this will also assist with ensuring employment is sustainable and long term.

The idea that employers need to be engaged on an emotional level to encourage more inclusive employment practices was expressed.

Some participants suggested that, where possible, employers need to tailor jobs to match the capacity of job seekers rather than try to fit people to jobs.

It was suggested that employers could ring fence jobs for disadvantaged job seekers.

A number were of the view that social enterprise creates stepping stone opportunities for people to move into ongoing paid employment.

### Sustainable Enterprises

Some participants suggested to ensure that local enterprise provides ongoing employment opportunities, it is vital that the enterprise is supported to become sustainable.

A number of examples were put forward of organisations providing business development support to local enterprises.

Stakeholders raised the issue of negative employer attitudes towards disadvantaged groups, particularly people with disability, as a barrier to better employment outcomes.

There was strong support, particularly from advocacy groups, for a cultural change in attitudes from employers to improve the workforce participation rate for disadvantaged groups, such as people with disability.

There was some support for an Australian Government role in engaging with employers to change and challenge employer attitudes.

### Better Linkages

There was strong support for developing close links between education, training and the workforce to significantly increase the likelihood of an individual receiving a job. Many local level examples of successful initiatives were provided by roundtable participants. There was some interest in guaranteeing employment if a particular training course was completed.

The importance of training and developing enterprise skills, particularly in remote areas, was discussed in some detail at a couple of roundtables.

It was suggested that young people should have some work experience requirements linked to formal schooling to make the transition into work easier, and create a culture of workforce participation from an early age.

## Business led Covenant

There was some interest in a business led covenant and general support for the concept as a way to provide employer leadership from the top.

Business groups detailed that any covenant should allow ample lead time to ensure the required internal structural changes could be made.

Some participants suggested that long term funding arrangements would make it easier to build partnerships with business.

## Better Collaboration

There was some discussion that Job Services Australia (JSA) and Disability Employment Services (DES) could complement each other more effectively in a new system. In one roundtable, there was discussion that JSA and DES can sometimes 'compete' for individuals.

## People with Mental Health Conditions

It was highlighted that employers cannot ask about a person's mental health status and it can consequently be hard for them to tailor support.

Several participants noted that employers are reluctant to employ people with mental health issues because of the fear of the unknown and that better education would help with this.

It was pointed out that there were some good examples of businesses that were supporting people with mental health conditions.

## Inclusive Employment Practices

Some groups claimed that employers need education and training in employing high need individuals.

The idea that there needs to be post placement support for employers and employees was strongly supported.

A few thought that employers could be supported with workforce planning which would help them develop creative solutions for employing people with restricted capacity.

## Pillar Four: Building Community Capacity

The view was expressed that building community capacity is not just about keeping people in their local community, it is about creating opportunities for people to leave.

The point was made by several participants that young people, especially in remote and regional communities, need to be supported for the possible transition out of their local community.

## Volunteering

It was suggested that volunteering is positive in terms of building community capacity and individual capability.

Many groups wanted to see volunteering recognised as meeting people's mutual obligation.

There was a strong view that people did not want to see volunteering made compulsory as a participation requirement.

A number of stakeholders raised the issue of limited community capacity building in remote areas, largely due to insufficient resourcing.

### Capital for Community Initiatives

The idea was expressed that many regional communities are asset rich and cash poor and that the Government needs to find a way to free up capital for communities to invest in local enterprise or community building projects.

Outcomes outside of workforce participation, such as improving individual wellbeing and self esteem, should not be lost in a new income support system.

There was strong support for the notion that volunteer organisations and the community sector should continue to focus on initiatives that promote individual capacity building in areas that are not solely related to improving workforce participation.

There was support for further promotion in changing community norms and expectations regarding the importance of participating in the workforce.

It was suggested that in some communities there was a culture of work and in others there was none.

### Strong Communities

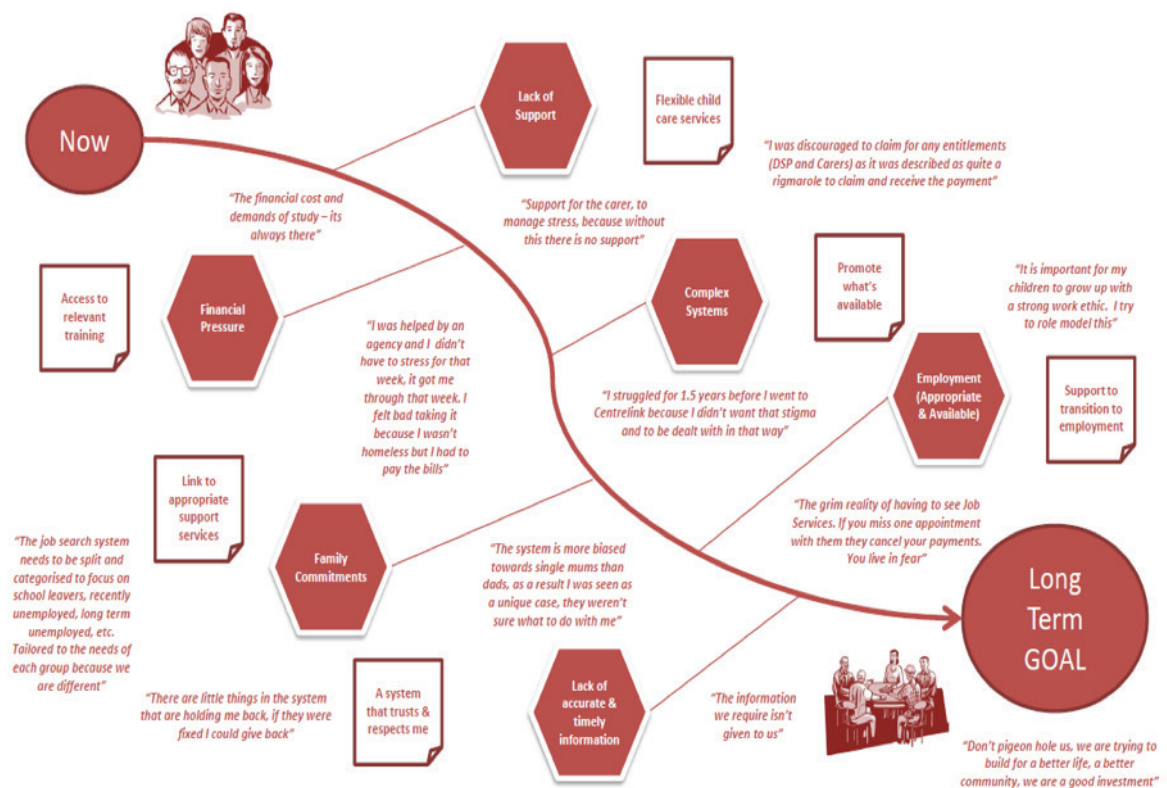
Some examples were given of programmes that help foster a sense of community and strengthen bonds between individuals.

### Local Government

Some stakeholders indicated that many initiatives are better developed and implemented by the local government or council. Local knowledge of industry should not be underestimated in driving jobs growth.

# Appendix G: Summary of Main Themes from Customer Roundtables

Customers had clear longer term goals and saw a variety of barriers between their present day situation and these goals. Some of the common features of customer journeys through the income support system and the views and experiences of specific groups are represented in the figure below.



## Single Parents

### Longer term goals

A variety of longer term goals were expressed by single parents. Often, their goals were centred on working so as to achieve independence from the income support system. A key focus for single parents was their children such as to ensure their children completed school.

### Barriers/Challenges

Several challenges were noted by single parents including access to affordable and safe housing, their cost of living, lack of access to support services and the income test applied to income support payments.

### Current Services and Support

Single parents listed a variety of services and supports which they used including Community Connections, community support groups, Smith Family, the Salvation Army, Jobs, Education and Training Child Care Fee Assistance (JET Programme), Employment Providers, Churches and before and after school care.

### Ideas to Improve the System

Single parents had several ideas on how to improve the system. These included creating a strong incentive to work complemented by fair and flexible childcare, an individualised approach to training and development, more affordable and family friendly housing and engaging with employers to change their attitudes to employing single parents.

## Job Seekers

### Longer term goals

Job seekers had several longer term goals that largely revolved around getting into the workforce. More specifically, these related to a desire for part time or full time work or to start their own business. Job seekers also expressed a desire to have access to training that would enable them to get into available jobs.

### Barriers/Challenges

The main barriers confronting job seekers were a lack of recent or relevant experience, a lack of jobs in specialised and appropriate fields as well as the cost of living.

### Current Services and Supports

Job seekers were supported by Employment Service Providers, the New Enterprise Incentive Scheme and Centrelink.

## Ideas to Improve the System

Broadly, job seekers wanted to see the system improved into a system that is work centric and reduces red tape. Job seekers also wanted help to navigate the system which they saw as overly complex. They also thought that a more compassionate system that promoted effective and open communication would be better.

## Carers

### Longer term goals

The longer term goals of carers were mostly tempered by immediate pressures. Many liked the idea of participating in activities including volunteering that could temporarily offer them respite from their caring responsibilities.

### Barriers/ Challenges

Carers suggested they faced a diverse array of challenges. Perhaps most formidable, was their 'unexpected and unknown future'. Other issues included being out of the workforce for so long, the difficulty of doing anything outside of the caring role and personal wellbeing.

### Current Services and Supports

Carers listed a variety of supports including Epilepsy Action, young carers, Centrelink, their local GP, the Grandparents Association, the community, hospitals and medical centres as well as various helplines.

## Ideas to Improve the System

Many carers expressed the view that they never got a chance to discuss their needs and the appropriateness of the support offered to them. They thought that regular (biannual) and flexible appointments with Centrelink would allow them to discuss such issues as well as their longer term employment goals. They wanted a system that offered a one stop shop and a holistic approach to social support and employment services as well as staff that were both understanding and respectful. They also wanted to be offered more help to return to and remain in work even if the prospect of doing so was remote.

## People with Disability

### Longer term goals

The longer term goals of people with disability were often related to vocational training or further study. They often expressed a desire to undertake specific studies including apprenticeships so that they would be qualified for their desired occupations. Another common goal was in relation to improving their physical or mental health conditions as a precursor to finding employment.

## Barriers/Challenges

Several challenges were listed by people with disability that mostly fell into three categories. Firstly, related to their capacity to participate more fully in the community. Secondly, related to a lack of general supports for people with disability and, thirdly, related to the discrimination they faced while seeking employment.

## Current Services and Supports

People with disability rely on various supports like headspace, Mental Illness Fellowship, Careline, their local library and Employment Services.

## Ideas to Improve the System

People with disability provided several ideas to improve the system including access to relevant training and appropriate incentives to launch income support recipients back into the workforce, specialised, tailored and timely support based on an individual's circumstances to offer them the best possible opportunity to re join the workforce, clearer information regarding the interaction of part time work and receipt of income support payments and an attempt to change the attitudes of employers who might otherwise be adverse to hiring people with disability.

## Students

### Longer term goals

The longer term goals of students were almost all related to completing their studies and finding a job. Sometimes the job and associated aspirations were very specific, whilst at other times the aspiration was much more general.

### Barriers/Challenges

Students suggested they faced a variety of barriers including a lack of affordable housing, a lack of time, financial pressures, an increasing study load and the casualisation of the workforce.

### Current Services and Supports

Students relied on Twenty10, Centrelink, Oasis and university counsellors.

### Ideas to Improve the System

Students provided a wide variety of ideas on how to improve the income support system including support to transition to part time employment, the provision of links to possible future employers while students are still studying as well as recognition that study obligations mean that students cannot be expected to have the capacity to hold down a full time job.



# Appendix H:

## Transitions Across the Life Course

### Introduction

Significant life events occur in every person's life and often trigger transitions that change their circumstances for better or worse.

Whether these transitions are positive or negative will be influenced by a broad range of both personal and environmental factors, and impact on individual wellbeing and capacity for self reliance.

Negative transition experiences can present a barrier to self reliance either in the short or long term and are often the trigger for people to make contact with the social support system.

Pillar Two of this report considers ways to support people to build their self reliance to help them manage periods of transition and, where appropriate, move out of the social support system.

A number of stakeholders at the roundtables and in their submissions noted that the current social support system fails to respond well to the difficult and negative transitions that some people experience.

A recurring theme in the stakeholder roundtables was the need to better understand and support people through key transition points within the social support system.

Stakeholder views were that the current social support system needed to better support individual and family life events and transitions in a more seamless way, as people move in and out work, between income support and work, and experience unstable personal and family situations. The current system does not handle well very different life circumstances and transitions of individuals and families.

Some stakeholders raised concerns about 'harsh' transition points in the system and the need for more incentives and flexibility in the system to ease the transitions for people from income support into work and sometime back again. There was broad agreement that people's transitions need to be understood and carefully managed and supported.

Periods of transition were highlighted as key points where early targeted support could be applied to best effect, for example early school leavers should be supported to transition into vocational training or work, or carers leaving caring roles need support, even before their caring role ends, to start to plan for and transition into work.

A clearer map of these key transition points over a person's life course would help in the design, targeting and delivery of a new social support system.

## Life course perspective

A life course perspective provides insights into how people transition across the life course, how different risks and opportunities present themselves and the consequences of these over time.

A better understanding of life course transitions provides a basis for policy and service design that is able to pre-empt, or identify early, key points in people's lives and target support early. The availability of longitudinal data is vital to this understanding.

The Household Income and Labour Dynamics in Australia (HILDA) survey, the Longitudinal Survey of Australian Youth (LSAY), the Longitudinal Study of Australian Children (LSAC) and the Longitudinal Study of Indigenous Children (LSIC) data sets all provide extensive data of individuals and households lifetime wellbeing.

Administrative data is another rich source of information. The Australian Government is currently undertaking work to make better use of the existing administrative data by bringing it together in a more coherent way. This work will enable more comprehensive analysis of the available data which will improve the way this evidence informs policy and practice.

## Life events and transitions

The HILDA survey asks participants about significant life events. This data reveals the prevalence of life events over time. For example, it shows how highly prevalent some negative life events are over time. Between 2002 and 2011:

- Over 70 per cent of females and 64 per cent of males reported a serious illness or injury of a family member at least once;
- 22 per cent of males (over one in five) and 16 per cent of females reported being dismissed from their job at some point during the period;
- In any given year, 1.3 per cent of females and 1.4 per cent of males report being the victim of physical violence. Over a ten year period this rises to 7.5 per cent of females and 8.0 per cent of males;
- Over 12 per cent of males and 11 per cent of females endured a major worsening of their finances; and
- Around 10 per cent of males and females separated from their long term partner or spouse.

Major life events are related to an individual's age or 'lifecycle stage'. Some events such as marriage, childbirth and retirement are closely related to a lifecycle stage. But most events, including employment and health related ones, are more likely to occur at particular ages. For example, an individual is more likely to move house and change jobs when younger and more likely to experience a serious illness or injury as they get older.

Many life events are predictable and linked to maturational stages, such as entering primary school, progressing to secondary school and leaving school. Positive transitions at these points are important for later life outcomes. Other life events are less predictable such as the onset of disability or being made redundant.

The diagram below represents a mapping of major predictable and unpredictable life events across the life course.

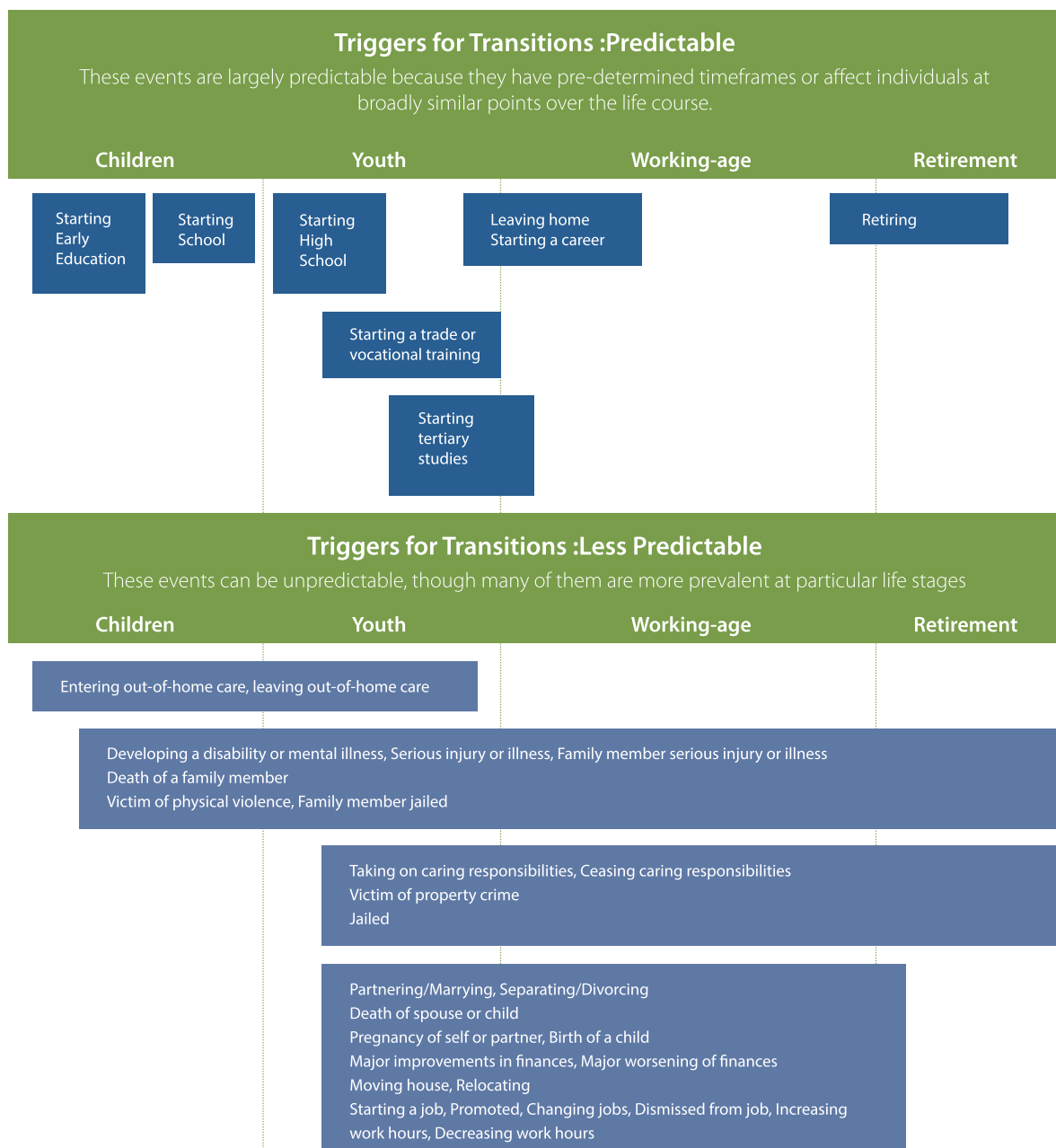
There is wide ranging literature about life events and transitions in the Australian context, with much of the existing literature based on the aforementioned longitudinal data sets.

The Australian Institute Family Studies (AIFS) has undertaken a comprehensive study of the life events literature. The AIFS research found that the experience of negative life events over the life course is often the trigger for people's contact with the social support system.

Other AIFS research on transitions drew a distinction between expected and unexpected life events. Both types of life event have the potential to create stress and the research flagged the importance of support services in helping people deal with these stresses.

This work also showed that the level of support that is required to help people overcome these stresses varies depending on their level of vulnerability and disadvantage.

## Milestones and life events over the life course



## Navigating transitions

An individual's capacity to navigate transition over the life course will be influenced by factors such as the material resources they have available to them, the social support structures they have around them and less tangible qualities like personal resilience.

Certain disadvantaged groups are more likely to lack one or more of these factors at any given time and are accordingly at risk of not being able to manage transition without support.

The data shows life events are highly prevalent and trigger transitions. Some life events are more prevalent for certain groups, particularly already disadvantaged groups. Some groups are also likely to be less resilient when faced with certain life events. As set out in Case for Reform, there are some predictable risk factors for people having life events and negative transition experiences.

Based on its analysis of HILDA and LSAC longitudinal data, AIFS found that: those who experienced certain life events tended to have lower wellbeing prior to the life event occurring; and experiences of some life events were associated with further declines in wellbeing.

AIFS noted that many life events are, by their nature, family events (for example, relationship separation, financial crises and moving house) and many others become family events (for example, an adult child experiencing a relationship breakdown or job loss).

It further noted that the experience of life events should be viewed in the broader context of other important circumstances affecting the wellbeing of individuals and families. For example, wellbeing tended to be lower for single parent families and those families experiencing financial disadvantage. For families such as these, the repercussions of experiencing life events may be more likely to have serious ("last straw") effects. While adverse life events can be an important trigger of the need for assistance, the events themselves may be the culmination of an extended negative process.

AIFS concluded that events differ in their likelihood of occurring at the various life stages and that life events are more likely to be encountered by some people than others. Other factors influence the likelihood of some individuals and families experiencing multiple potentially stressful life events. This also limits the capacity of individuals and their families to negotiate these successfully.

AIFS suggests this should provide a basis for targeting services to those who are more likely to be placed at risk as a result of the load of life events that may befall them. As such, prevention and early intervention efforts are best targeted and tailored to those most at risk.

By recognising these risk factors, the government can better target support to help people build capability and navigate transitions without negative short or long term consequences.

# Appendix I:

## Australian Government Expenditure on Income Support and Selected Elements of Australia's Social Support System

### Expenditure and income support payment recipient numbers

The Australian Government makes a range of cash transfer payments to individuals and families including income support payments to individuals and couples as well as additional assistance with certain costs such as the costs of raising children or the costs of childcare.

Machinery of government changes in 2013 have resulted in policy responsibility for all transfer payments, except those for veterans and their families, and childcare assistance, being consolidated in the Department of Social Services (DSS).

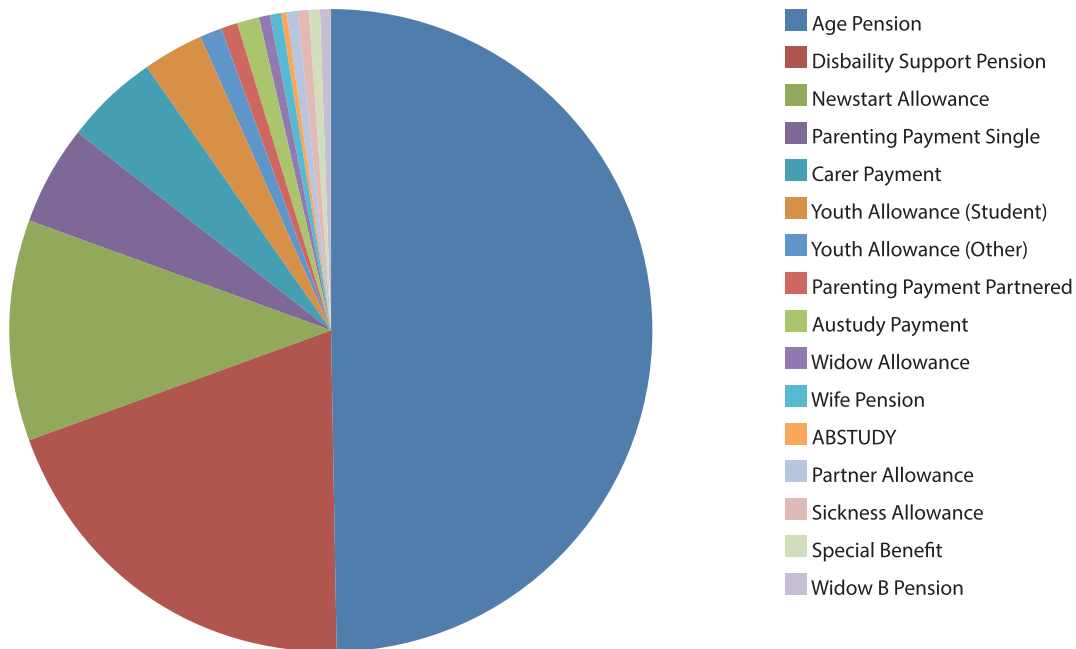
The DSS component of total Federal Government cash transfer payments for 2013–14 was \$105.5 billion.

Expenditure on allowance payments are significantly smaller than expenditures on pension payments.

Government outlays on DSS income support payments for 2013–14 was \$79.4 billion and 81 per cent of the expenditure can be attributed to three payments: Age Pension (\$39.4 billion), Disability Support Pension (\$16.1 billion) and Newstart Allowance (\$8.8 billion).

The below figure shows the DSS expenditure split across all pensions and allowances.

## DSS expenditure by income support payments type (2013–14 actual)



Source: Department of Social Services Administrative Data

To recognise additional expenses, various supplements are added to the basic rate of income support payments depending on the payment received and recipients' characteristics, such as age, duration on income support, principal carer status, housing tenure or whether or not a person has a disability or a partial capacity to work. Some people not receiving income support also receive supplements.

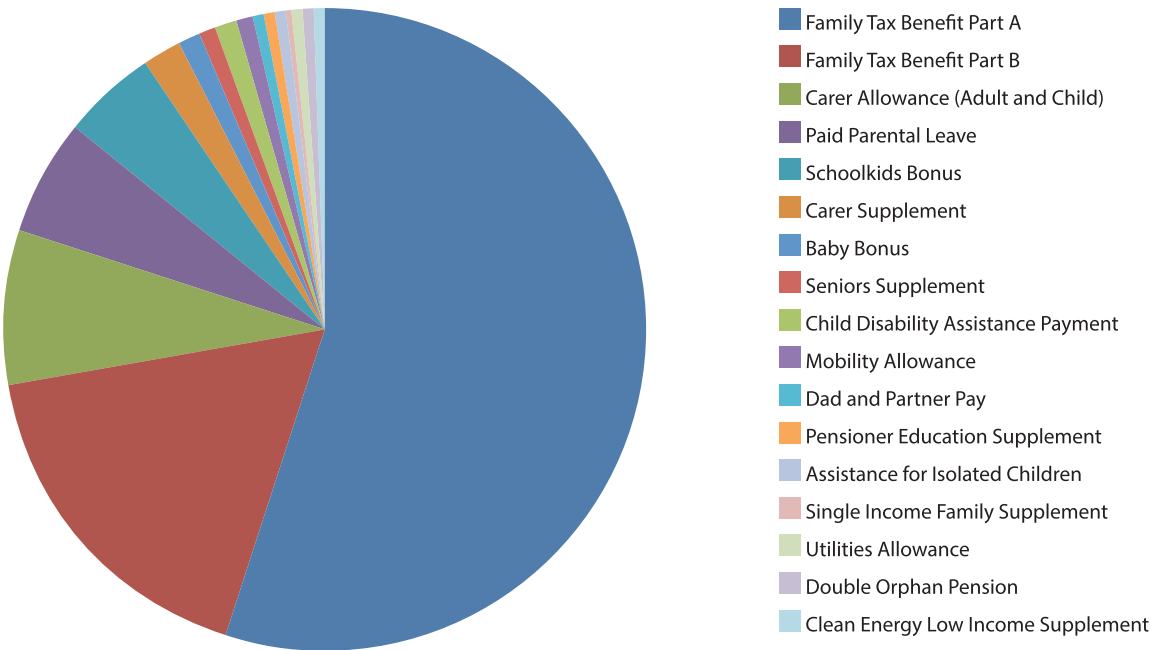
The expenditure on supplementary assistance for 2013–14 totalled \$26.1 billion (excluding Commonwealth Rent Assistance, for which the expenditure is included in the cost of the income support programme).

The majority of expenditure on supplementary assistance was for Family Tax Benefit part A which in 2013–14 amounted to \$14.9 billion.

Other payments made by DSS include Paid Parental Leave (\$1.6 billion) and Dad and Partner Pay (\$92.5 million).

The figure opposite shows DSS expenditure split across all supplement types.

Expenditure on supplementary assistance by type (2013–14 actual)



Source: Department of Social Services Administrative Data

# Appendix J:

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